

**County of Orange Treasury Oversight Committee
Annual Report to the Board of Supervisors
For the Period January 1, 2011 to December 31, 2011**

Establishment of Board

The Treasury Oversight Committee (Committee) was established by the Board of Supervisors 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 Committee Structure approved by the Board of Supervisors consists of five members, the County Auditor Controller or designee, the County Executive Officer, or designee, the County Superintendent of Schools or designee and two members of the public. The current members of the Committee are as follows:

<u>Name</u>	<u>Member Type</u>
Jan Grimes	Chief Deputy, Auditor-Controller
William Habermehl	County Superintendent of Schools
Thomas G. Mauk	County Executive Officer
George Jeffries (Chair)	Public Member
William "Andy" Dunn	Public Member*

* Appointed to his first term on 4/19/2011.

Board Activities

During 2011, five Committee meetings were held. All meetings were open to the public as required by Government Code 54950 and held on the following dates:

January 26 April 27 July 20 August 25 October 26

As required under the Article 6 and the Treasury Oversight Committee Bylaws and Rules of Procedures (Bylaws), the committee has:

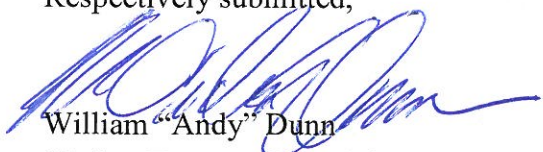
- Reviewed and monitored the annual Investment Policy (IPS) ensuring that it included all items under Rule 27 (a) to (h) in the Bylaws
- Caused an annual audit of the Treasurer's compliance with Article 6
- Not directed individual investment decisions, select advisors, brokers, dealers or impinged on the day-to-day operations of the Treasurer
- Reviewed, discussed and approved changes and amendments to the Bylaws by the last meeting of the calendar year for presentation to the Board of Supervisors
- 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 adding a designee for two County positions, changing a member from one voted by the legislative bodies of the special districts to be a public member, approving the 2007-2010 Annual Reports to the Board of Supervisors, receiving the 2006-2009 Treasury Administrative Fee review, reviewing the mid-year change to the Investment Policy Statement (IPS) due to the downgrade of the US Government long-term debt, reviewing changes to the IPS to allow for additional safety and diversity for pool participants and to streamline investment processes, changing the investment portfolio compliance monitoring to quarterly from monthly, updating the Bylaws to match the original Board Resolution and creating a new policy to investigate and report on irregularities in the treasury operation which become known to the Committee as required by Resolution 95-946, clause 4(c).

During 2011, the Treasurer reported instances of non-compliance with the IPS or internal policies in January, October, November, and December, 2011 for a total of four non-compliance instances. The first non-compliance instance occurred in January, when investment staff made an investment purchase of an issuer that had recently been placed on credit watch negative. The internal policy does not allow for purchases of issuers on credit-watch negative. The issuer had short-term ratings of A-1, P-1 F1 and long-term ratings of A, A2 and A. Compliance staff created a new rule within the Bloomberg Portfolio Compliance Manager preventing any future purchase of any security on credit watch negative. The second non-compliance instance occurred in October when an investment purchase of an issuer caused the total outstanding investment in that issuer to exceed 5%. The IPS states that no issuer can exceed 5% of the portfolio balance. Compliance staff updated the rule in the Bloomberg Portfolio Compliance Manager to include the Federal Deposit Insurance Corporation corporate collateral type. The third instance also related to a purchase that caused the 5% Issuer threshold limit to be exceeded due to a forward purchase agreement. To prevent this from occurring in future, internal investment procedures were updated, and Investment staff is now required to monitor and include purchases with forward settlements into current balances calculations prior to purchasing securities. The last instance of non-compliance occurred in December when a government agency security was purchased from a broker who was only authorized to sell direct debt issues of their company to the County. Compliance staff updated the rule in the Bloomberg Portfolio Compliance Manager to include only brokers from the authorized list and limiting the purchase of securities from an approved direct issuer to only the securities that they issue.

It is the opinion of the Treasury Oversight Committee that during the Year 2011 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,


William "Andy" Dunn
Chair – Treasury Oversight Committee

Cc: Shari L. Freidenrich, County Treasurer