

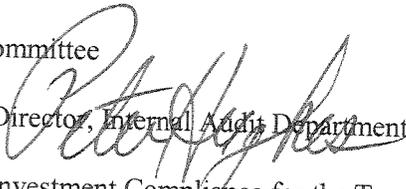


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MEMORANDUM

February 11, 2004

TO: Audit Oversight Committee

FROM: Dr. Peter Hughes, Director, Internal Audit Department 

SUBJECT: Audit of Treasury Investment Compliance for the Two Years Ending December 31, 2003 – Open Item Follow Up

In our audit report of the Audit of Treasury Investment Compliance for Two Years Ending December 31, 2002, Finding I. A., we reached a professional difference of opinion with the Treasurer Tax-Collector regarding a change in language in the Investment Policy Statement (IPS). Internal Audit believed that the change in language allowed for the Treasurer to purchase split-rated investments. The Treasurer Tax-Collector believed that the IPS does not allow for the purchase of split-rated investments.

As a result of our professional difference of opinion, we requested a County Counsel opinion from John H. Abbott, Senior Deputy County Counsel with respect to whether the County Treasurer-Tax Collector may purchase securities authorized in accordance with the Board of Supervisors approved IPS, which are "split-rated." The Opinion received from County Counsel on December 10, 2003 states, "*Although the undersigned agrees that the IPS as written could be interpreted to permit the purchase of split-rated securities, we are of the opinion that neither applicable law, nor the IPS permits such a purchase.*" Based on County Counsel's opinion, we consider this issue **closed**.

cc. Members, Board of Supervisors
James D. Ruth, County Executive Officer
Foreman, Grand Jury
John M. W. Moorlach, Treasurer-Tax Collector
Paul Gorman, Treasurer Accounting/Compliance Manager