



**OFFICE OF THE
TREASURER-TAX COLLECTOR**

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October 7, 2013

Honorable Thomas J. Borris
Presiding Judge of the Superior Court of California
700 Civic Center Drive West
Santa Ana, California 92701

Dear Judge Borris:

In accordance with Penal Code sections 933 and 933.05, enclosed please find our response to the 2012-2013 Orange County Grand Jury report, "An Investment and Compliance Review of the Orange County Treasurer."

If you have any questions, please contact me at (714) 834-7625 or e-mail me at Shari.Freidenrich@ttc.ocgov.com.

Sincerely,

Shari L. Freidenrich, CPA, CCMT, CPFA, ACPFIM
Treasurer-Tax Collector

cc: **Orange County Grand Jury**
Chairman Shawn Nelson, 4th District, Supervisor
Members, Board of Supervisors
Susan Novak, Clerk of the Board of Supervisors
Michael Giancola, County Executive Officer
Chairman Andy Dunn, Treasury Oversight Committee
Members, Treasury Oversight Committee

Mission: Ensure safe and timely receipt, deposit, collection and investment of public funds.



**COUNTY OF ORANGE
OFFICE OF THE TREASURER-TAX COLLECTOR**

Responses to Findings and Recommendations

2012-2013 Orange County Grand Jury Report

“An Investment and Compliance Review of the Orange County Treasurer”

Summary Response Statement:

On June 24, 2013, the Grand Jury released a report entitled “*An Investment Compliance Review of the Orange County Treasurer.*” This report directed responses to Findings and Recommendations from the Office of the Orange County Treasurer-Tax Collector.

The County Treasurer-Tax Collector appreciates the work of the Grand Jury and their comments in conjunction with this report.

County Treasurer-Tax Collector Response to Grand Jury Findings:

F1. The Treasurer does not have a securities representative (staff member). The Treasurer shall consider the benefits of having a member of the investment team equity licensed.

Response: Agrees with finding.

F2. Having a licensed securities representative on staff could be a conflict of interest.

Response: Agrees with finding.

F3. The Treasurer leverages several information systems for tax collection and investments. The majority are older legacy systems. These systems have limited flexibility and are expensive to change and enhance.

Response: Agrees with finding.

County Treasurer-Tax Collector Response to Grand Jury Recommendations:

R1. The Treasurer shall consider the benefits of having a current staff member licensed as a Securities representative. (Series 7, 51 and 63)

Response: The recommendation will not be implemented, as Financial Industry Regulatory Authority, Inc. (FINRA) rules do not permit an individual with a Series 7 (General Securities Representative), a Series 51 (Municipal Fund Securities Principal), or a Series 63 (Uniform Securities Agent State Law) license to maintain their registrations (licenses) while employed at a non-FINRA member firm. The County of Orange does not meet the qualifications to apply for FINRA membership.

As a condition for FINRA membership, an applicant must first be registered as a broker-dealer with the U.S. Securities and Exchange Commission (SEC); the County of Orange is not a registered broker-dealer with the

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SEC. Therefore, members of the Treasurer's investment team cannot maintain a Series 7, Series 51, or Series 63 registration (license).

FINRA rules require that a candidate seeking FINRA registration (licensing) for a Series 7 or Series 51 must be employed by, or associated with, a FINRA member firm to be eligible to take these examinations and to maintain an active registration (license). A candidate for the Series 63, although not required to be employed by or associated with a FINRA member firm to take the examination, must be employed by a FINRA member firm within two years after passing the examination in order to become registered (licensed).

Finally, if a registered (licensed) Series 7, Series 51, or Series 63 individual leaves their existing FINRA member firm, their registrations (licenses) are immediately terminated. That individual generally has two years to be re-employed and re-registered (licensed) with a FINRA member firm without having to take the examinations again.

R2. The Treasurer shall address the conflict of interest issues with having a securities licensed staff member.

Response: The recommendation will not be implemented, as a conflict exists in that the FINRA rules do not permit an individual with a Series 7, Series 51, or Series 63 license to maintain their registrations (licenses) while employed at a non-FINRA member firm. The County of Orange does not meet the qualifications to apply for FINRA membership.

As a condition for FINRA membership, an applicant must first be registered as a broker-dealer with the U.S. Securities and Exchange Commission (SEC); the County of Orange is not a registered broker-dealer with the SEC. Therefore, members of the Treasurer's investment team cannot maintain a Series 7, Series 51, or Series 63 registration (license).

FINRA rules require that a candidate seeking FINRA registration (licensing) for a Series 7 or Series 51 must be employed by, or associated with, a FINRA member firm to be eligible to take these examinations and to maintain an active registration (license). A candidate for the Series 63, although not required to be employed by or associated with a FINRA member firm to take the examination, must be employed by a FINRA member firm within two years after passing the examination in order to become registered (licensed).

Finally, if a registered (licensed) Series 7, Series 51, or Series 63 individual leaves their existing FINRA member firm, their registrations (licenses) are immediately terminated. That individual generally has two years to be re-employed and re-registered (licensed) with a FINRA member firm without having to take the examinations again.

R3. The Treasurer shall address the expense, time restraints, and expectations related to improving the information systems.

Response: The recommendation has not been implemented, but will be in the future.

Subject to approval by the Board of Supervisors, the County has plans to replace its property tax system within the next five years, depending upon availability of feasible alternatives and funding. The Treasurer is actively working with the Auditor-Controller, Clerk of the Board, and the County Executive Office Information Technology Department to analyze such alternatives.