What Gets Public Funds Investment Officers in Trouble

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Objectives

- Discuss Compliance
- Discuss Internal Controls
- Discuss Treasury Functions as an Investment Officer
- Discuss Cash Handling as an Investment Objective
- Discuss Employee Management
- Discuss Administrative Issues

The Issues

- Compliance with the laws
- Investments
- Internal controls
- Technology Issues
- Monitoring, reporting and transparency
- Ethical perceptions
- Cash management practices
- Employee management
- Administrative Issues

Compliance with the laws

- Public Funds Investment Act – 2256
  - Local Investment Policy
- Public Funds Collateral Act – 2257
  - Collateral levels
- Entity specific requirements under Texas Code
  - Education Code, Higher Education, Water Code, etc.
- Other sources of funds:
  - Bond ordinances
  - Federal funds
- Local Government Data Retention Schedules
  - Texas State Library and Archives Commission

Investments

- Out of Date Investment Policy
- Investments outside of the Investment Policy
- No strategies or investment plan
- Portfolio maturities that are not optimized
- Too much liquidity
- Lost opportunity costs
- Ill-Defined liquidity / cash flow needs
- Asset Allocation / Diversification issues
- Understanding the various risks

Internal Controls

- Separation of Duties
  - Procedure manuals and checklists
  - Fraud prevention and detection
  - Cross training
  - Work load allocation
  - Efficiencies identified
- Smaller Organizations
  - Limited staff
  - No oversight
  - Limited resources: Technology, Key person, poor record keeping
- Data
  - Storage, Security, Integrity, Confidentiality, Availability, and Recovery

Technology Issues

- Unproductive platforms and application knowledge
- Password controls
- Backup and recovery practices
- Data protection and protected information
  - Confidentiality, integrity, availability and breeches
- FOIA / Open record requests
- Personal versus private use of computers and phones
- Purchasing cards, PCI Compliance
- Email retention, RFP, and competitive bidding practices

Monitoring, Reporting and Transparency

- Investment advisory committee
- Ongoing cash management
  - Cash and fund balances, collateral, current rates
- Quarterly review of diversity, maturity structure, yields, risks, asset allocation, and investment strategies
- State required quarterly reports and auditor review
- Public Funds Investment Act required training
- Certification of investment policy and strategy statements

Ethical perceptions

- Vendor relationships – what is appropriate; not appropriate
- Gifts and gratuities – what is appropriate; not appropriate
- Public perception and public trust
- Personal business and family relationships
- Audit practices and disclosures
- Internal Audit team development
- Texas Transparency Program
    - Texas Comptroller

Cash Management Practices

- Bank and investment reconciliation practices
- Establishment of acceptable cash and reserve levels
- Utilization of depository features, services and controls
    - Positive pay
    - Reconciliation
    - Account establishment procedures
    - Wire and ACH transactions
    - Depository contract agreement
    - Signature cards and approval requirements
- Capabilities
    - Organization, staff, technology, experience

Employee Management

- Clear organizational chart and lines of reporting
- Effective and essential evaluation process
- Proper performance measurements
- Succession planning
- Training opportunities
- Professional versus personal relationships
- Open-door policy
- Support programs
- Hiring and termination policy

Administrative Issues

- Tone at the top
- Budget development and preparation
- Management expectations
- Preferences and perceptions
  - History
  - Politics
  - Personalities
  - Current battles
- When it’s “too good to be true”