

CHECKLIST FOR INVESTMENT SAFETY INTERNAL CONTROLS

Cash Flow Analysis

- Is there an updated, current cash flow analysis of expenses and revenues?
- Have you established a maximum weighted maturity for the portfolio based on current cash flow?
- Does your portfolio and your reports reflect the cash flow analysis?

Safekeeping and Custody of City Owned Securities

- Are all securities purchased by the City safe-kept in your banking services depository?
- Does your banking services depository contract require delivery versus payment (DVP) settlement on securities?
- If you use a broker to hold your securities, do you know that it is illegal and risky?
- Are original safekeeping receipts issued by the bank for each security bought?
- Are your safekeeping receipts kept in a safe place with the confirmation documents?
- Is the required delivery versus payment (DVP) settlement on all transactions required by your Policy?
- Is the required delivery versus payment (DVP) settlement on all transactions required by your bank contract?
- Are there regular periodic verifications of collateral and security safekeeping?

Collateral Pledged to the City

- Do you have a written depository contract which covers collateralization requirements?
- Does your depository contract follow the safety rules:
 - that is in written form
 - that is approved by the bank's Board of Directors or Loan Committee
 - that is an official record of the bank
 - that does not list any specific pledged securities
 - that refers to all subsequent collateral transactions without listing collateral ?
- Are margin requirements on all collateral set at 102% *at all times* for safety?
- Are original safekeeping receipts on all collateral securities clearly marked as pledged to the city?
- Are custody agreements tri-party signed by custodian, banking services bank and the city?
- If the custodian is the Federal Reserve, have you completed and submitted the Pledgee Agreement of Circular 7?
- Does the custodian provide a monthly report directly to the City?
- Are there regular periodic verifications of collateral and security safekeeping?
- Have you reviewed your options under a collateral pool on the basis of risk and bank cost?
- Has the bank been made contractually liable for monitoring and maintaining collateral levels?
- Has responsibility for pricing of collateral by the bank been set by contract and policy?

Banking

- Are you competitively bidding your banking services based on services at least every five years?
- Do you have written agreements covering all specific services and requirements such as:
 - wire transfer agreement
 - sweep account agreement
 - ACH processing agreement
 - online reporting security
- Do you have the prospectus for the money fund if one is used as a sweep account?
- Are security measures in place for the movement of funds manually and/or automatically?
- Do you control all signons and transactions with the bank?
- Do you maintain timely reconciliation of bank accounts?
- Do you use positive pay (advance reconciliation) services to protect from check fraud? If not you are liable for all fraudulent checks.
- Are you using remote deposit to reduce float and liability of transport on checks?
- Is there a timely internal review of the account analysis every month?

- Do you use filters or blocks on accounts to prohibit unauthorized ACH debits on your accounts?
- Have you done an analysis on whether to pay bank fees or use compensating balances (“free banking”) to get the best rates?
- Are cash deposits made on a timely basis to the bank? Is their transport safe for assets and people?
- Is anybody monitoring and collecting old receivables?
- Are carry-overs and settlement of account analysis charges monitored and managed?
- Are there regular periodic verifications of collateral and security safekeeping made?
- Is interest from interest bearing accounts being charged back to you on account analysis? (don’t)
- Is there a termination clause in your contract?
- Have you made the contract long enough to reduce costs? (maximum 5 years)
- Are you pre-noting all your ACH transactions to avoid delivery problems?
- Are you using a money market sweep account or internal account offering more interest for daily investment of account balances?
- If you use compensating balances to pay the bank are you sweeping to your target balance?

Reporting

- Is there timely quarterly reporting to Council at both detail and management levels?
- Does reporting give the weighted average balance on the portfolio?
- Does you report compare your yield against a benchmark like the comparable period T-Bill to measure risk in the portfolio from over-extension?
- Does reporting give accurate amortized book and market values? Not cash accounting.
- Do your reports tell you about any liquidity or risk problems?
- Are prices of securities obtained from a source outside of the broker from which you bought them?
- Does your Policy stipulate the source from which the pricing is obtained? (an “independent source”)

Broker/Dealers

- Do you have adequate information on every broker/dealers used? (Certification, FINRA registration?)
- Do you have a simple questionnaire for broker/dealers to record basic contact and market sector participation?
- Has each bank/broker/dealer/pool/adviser been sent your Policy for certification? Have they provided that certification?
- Are all broker/dealers registered with the Texas State Securities Board?
- Are all broker/dealers registered with FINRA? Do you have their CRD number?
- For bond proceeds are broker/advisers independent from the bond transaction?
- Are competitive bids always taken for securities including CDs?
- Is a trade ticket (or similar document detailing the transaction) always prepared and reconciled?
- Is your list of broker/dealers annually reviewed and approved by the governing board?

Portfolio

- Do you always use and document competitive bidding on each trade ticket? Do you complete a trade ticket/document?
- Do you have a strategy? A general idea of how interest rates are directed?
- Is the strategy clear and does it match the cash flow analysis?
- Are all trades always settled to the custodian as a delivery versus payment (DVP) transactions?
- Is there timely presentation of transaction confirmations from the broker?
- Is there diversification by market sector type on the portfolio? Are you using more than the pools?
- Is there diversification by maturity which closely parallels the current cash flow analysis?
- Is there a well developed flexible investment policy? Approved by Council annually?
- Are authorized investments and diversification limits set and followed?
- Are Policy limits flexible enough to allow investment and avoid opportunity costs?
- Is the Policy reviewed and adopted each year in context of changing circumstances and personnel?
- Are investment officers required to attend training? Do they share this information internally?

Internal Processing

- Is there a separation of responsibilities as much as possible?
- If separation is impossible is a second approval of transactions required even after-the-fact?
- Have fraud and counterfeiting controls been put in place?
- Is there disclosure of personal business relationships by each investment officer?
- Is check fraud prevention through positive pay used?
- Are there commercially reasonable written procedures in place to support what you do?
- Are controls in place (ex: rotating PINS) to control errors/fraud on PC interfaces?

Investment Advisors (Money Managers)

- Do you receive clear communications on limits, goals and market views?
- Is there clear communication on cash flow and its changes?
- Is there oversight of the adviser through regular reporting?
- Is your adviser independent from other transactions such as bond issuances or the bank?
- Does the adviser have experience in governmental operations not just money management?
- Does the adviser answer your questions?
- Do the reports fully explain the portfolio to your satisfaction?
- Are reports clear and concise?

Investment Policy

- Is it written and does it stress safety, liquidity, diversification and yield?
- Is it reviewed and adopted annually by resolution by the governing board with the resolution showing any changes?
- Does it list the authorized investments, maximum maturity and a weighted average maturity?
- Does it include your strategy statement for each portfolio?
- Does the strategy include the weighted average maturity?
- Does it designate the responsibilities of the investment officers, the council and any one else in the investment process?
- Does it restrict the types of investments are authorized and define a maturity date for each type?
- Does it contain all the requirements of collateral?
- Does it require delivery versus payment for any security purchased?
- Does it include the need for independent pricing?
- Does it include a procedure to monitor any credit ratings required on investment types?
- Does it include the need to monitor for mergers and acquisitions on brokered CD securities?
- Does it limit the maximum maturity of each investment type?