

Considerations for Public Funds Investment Officers



**North Central Texas
Council of Governments**



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
- Investment Policy
- Internal Controls
- Technology Issues
- Monitoring, Reporting and Transparency
- Ethical Perceptions
- Cash Management Practices
- Employee Management
- Administrative Issues

Compliance with the Laws

- Texas Constitution and Statutes –
 - <https://statutes.capitol.texas.gov/?link=GV>
- Public Funds Investment Act – 2256
- Public Funds Collateral Act – 2257
- Texas Public Information Act - 552
- Entity specific requirements under Texas Code
 - Education Code, Higher Education Code, Water Code, etc.
- Other sources of compliance:
 - Bond ordinances
 - Federal (FEMA)
- Local Government Data Retention Schedules
 - Texas State Library and Archives Commission, Texas Government Code, TASB

Investments

- Up to date on current markets and interest rates
- Not following the defined strategies
- Investments outside of the Investment Policy
- Portfolio maturities that are not optimized
- Too much liquidity
- Too little liquidity
- Lost opportunity costs
- Cash flow considerations
- Asset Allocation / Diversification issues
- Understanding the various risks

Investment Policy

- Not having a local Investment Policy
- Out of date Investment Policy
- Include required elements of 2256
- Including best practices
- Effective strategy statements
- Approved annually (including strategy statements)
- Including legislative updates when applicable
- Having the policy certified by business organizations
- Know your Investment Policy

Internal Controls

- Separation of Duties
 - Procedure manuals and operational checklists to a granular level
 - Consider electronic workflow checklists to prevent deviations
 - Fraud prevention and detection through chain of custody and reconciliations
 - Cross training using procedure manuals and checklists
 - Workload allocation and responsibility shift
 - Efficiencies identified with technology and operational oversight
 - Redundancies are key (Two is one, One is none)
- Reinforced by Policy (Strategic) and Procedures (Tactical)
- Identify impediments and obstructions
 - Smaller organizations, remote offices and workers
 - Limited staff
 - No oversight
 - Limited resources: Technology, Key person, poor record keeping
- Be willing to adapt and adjust (“We look great on paper, but...”)

Technology Issues

- Data
 - Classification, Storage, Security, Integrity, Confidentiality, Availability, and Recovery
- Computer Security training
- Unproductive platforms and application knowledge
- Password controls, rights, access, permissions
- Backup and recovery practices (What's the schedule?)
- Data protection and protected information
 - Confidentiality, integrity, availability and breeches
- Storage issues: "C" drive, local drives, USB/removable
- Personal versus private use of computers and phones
- Purchasing cards, PCI Compliance
- RFP, and competitive bidding using electronic platforms

Monitoring, Reporting and Transparency

- Investment advisory committee
- Internal Audit team development if needed
- Ongoing cash management
 - Cash and fund balances, collateral, current rates
 - Depository collaboration on needs assessment and available resources
- Quarterly review of diversity, maturity structure, yields, risks, asset allocation, and investment strategies
- State required quarterly reports and annual auditor review
- Public Funds Investment Act required training
- Annual certification of investment policy and strategy statements
- FOIA / open records requests
- Texas Transparency Program (Stars)
 - <https://comptroller.texas.gov/transparency/local/stars/>

Ethical Perceptions

- Texas Ethics Commission
 - [Guide to Ethics Laws for State Officers and Employees](#)
- Professional Conduct
 - Vendor relationships – what is appropriate; not appropriate
 - Gifts and gratuities – what is appropriate; not appropriate
- Conflicts of Interest
- Public perception and public trust
- Nepotism, favoritism of personal business and family relationships
- PFIA disclosures
 - (Personal business relationships, 2nd degree of consanguinity and affinity)
- RFP disclosures
- Audit practices and disclosures
- Internal Audit team review and disclosure

Cash Management Practices

- Monitor cash flow closely
- Bank and investment reconciliation practices
- Establishment of acceptable cash and reserve levels
- Have an emergency backup plan
- Make projections frequently and identify issues early
- 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
- Understand basic accounting
- Use technology effectively

Employee Management

- Create a positive work environment
- Find the right people for the job
- Clear organizational chart and lines of reporting
- Set goals and objectives
- Have an effective evaluation process
- Establish clear performance measurements
- Have good communication
- Succession planning is critical
- Provide training opportunities
- Give recognition to top performers
- Open-door policy / reporting mechanisms
- Strong HR program and policies

Administrative Issues

- Provide information that relays the performance of the portfolio
- Support the “Tone at the top”.
- Generate information that assists with budget development and preparation
- Management expectations can be supported and/or shifted based on accurate information.
- Educating members on public funds investments and current market conditions.