Cash Investment Management
Report of Findings and Recommendations
13-13

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TRAVIS COUNTY
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May 7, 2013

Leslie Browder
County Executive, Planning and Budget

RE: Examination of Cash Investment Management

Scheduled as part of our statutory requirements, the Revenue and Internal Controls Auditing Division of the Travis County Auditor's Office has completed an examination of Travis County Cash Investment Management (CIM), a division of the Planning and Budget Office (PBO). We conducted our examination in accordance with the applicable statutes governing the County Auditor's Office and those relating to County financial and accounting protocols. As a result of our examination, we are providing this report on our findings and recommendations.

BACKGROUND

This division of PBO monitors the County's operating funds on a daily basis and manages the County's investment portfolios in accordance with the Travis County Investment Policies and Procedures Manual and the State of Texas Public Funds Investment Act. CIM also coordinates the County's bank depository contract.

SCOPE OF EXAMINATION

This examination included an assessment of the adequacy and effectiveness of the overall system of internal controls in place for CIM's financial and accounting system during the period July 1, 2012 through December 31, 2012.

The scope of this examination included an examination of CIM's compliance with the applicable statutes and Commissioners' Court-approved policies and procedures, CIM's internal control structure, controls over fixed assets, and their user access to the County's financial system.

EXAMINATION METHODOLOGY

Our work was based on applying sampling procedures to office records and on verbal and written representations from this office. Sampling relates to examining, on a test basis, evidence supporting the amounts and disclosures in the financial records and statements. The use of sampling techniques would not necessarily disclose all matters in CIM's financial records and internal controls that might be material weaknesses or misstatements. In regards to the written and verbal representations made by this office, unless otherwise noted in this report, Cash Investment Management maintains that the assertions we relied upon in the examination were correct to the best of their knowledge.

SUMMARY OF FINDINGS

Finding #1: There were several discrepancies in the Portfolio Statistics Reports provided in the two Quarterly Reports issued by CIM during the exam period. The discrepancies resulted from mathematical errors that caused dollar amounts and percentages to be incorrectly stated.

Finding #2: We noted that CIM does not have a policy requiring supervisory review of all of the schedules prepared by staff to verify the accuracy of the bank's account analysis statements.

OVERVIEW OF RESPONSES BY MANAGEMENT TO NOTED FINDINGS

Overall, CIM agrees with the findings of this examination and has implemented new policies and procedures designed to ensure the accuracy of the quarterly reports as well as the account analysis statement review schedules. In regard to the latter, documented supervisory review of the schedules will be required.

OPINION OF INTERNAL CONTROL SYSTEM

Based upon our examination, we gave the overall system of internal controls for this office a rating of "Adequate", indicating an overall solid system of internal controls outweighs the relative number of minor or more serious examination findings.

ATTACHMENTS

Attachment A: This attachment contains descriptions for each of the ratings we use to describe the effectiveness of the internal controls environment for the functional area under review.

Attachment B: Details of our findings, our recommendations, and management's responses to these issues can be found in Attachment B. Immediately after the title of each control issue listed in this attachment, we have placed our assessment of the severity of that particular issue in parenthesis. These items are assessed as having "Most Serious", "Serious" or "Less Serious" Significance.

EXAMINATION TEAM

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Vanessa Robles, Staff Auditor
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CLOSING

This report is intended solely for the information and use of management and the Commissioners' Court. We greatly appreciate the cooperation and assistance received from the management and staff of CIM during this examination. Please contact our office if you have any questions or concerns regarding this report.

David Jungerman
Manager – Risk Evaluation & Consulting

Paul Lyon
First Assistant County Auditor

Nicki Riley
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REPORT DISTRIBUTION

The Honorable Lora Livingston, Judge, 261st Judicial District
The Honorable Julie Kocurek, Judge, 390th Judicial District
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The Honorable Ron Davis, Commissioner, Precinct 1
The Honorable Bruce Todd, Commissioner, Precinct 2
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Examination File

ATTACHMENT A – INTERNAL CONTROLS RATING KEY

A good internal control system reduces the risk of errors, defalcations, and misappropriations of funds. Weak internal control systems provide an environment in which errors, defalcations, and misappropriations of funds can go undetected. The following details the various grades we assign to internal control systems:

RATING	RATING DESCRIPTION
Good	Well-established internal controls with few, if any, minor weaknesses noted
Adequate	The overall solid system of internal controls is sufficient to outweigh noted weaknesses
Requires Improvement	Internal control weaknesses exist that moderately impact the overall system of internal controls
Requires Significant Improvement	Significant internal control weaknesses exist that negatively impact the overall system of internal controls
Inadequate	The existing system of internal controls is materially ineffective

ATTACHMENT B - DETAILED EXAMINATION RESULTS

Finding #1: Quarterly Reports (Serious)

Cash Investment Management is required to issue quarterly reports that describe in detail the investment position of Travis County and evaluate investment performance based on investment policy objectives. We reviewed the quarterly reports issued for September 30, 2012 and December 31, 2012, noting the following issues with the Quarterly Portfolio Statistics Reports. We reported a similar finding in the previous examination report.

September 2012:

- The amounts reported for "total portfolio" on the Portfolio by Fund Type and the Combined Portfolio schedules were not in agreement. The difference was due to the dollar amount reported for TexasTERM CP on the Combined Portfolio Schedule not being equal to the sum of the individual TexasTERM CP amounts reported on the Portfolio by Fund Type Schedule. This error carried through to the Local Government Investment Pool (LGIP) Summary provided on the Combined Portfolio Schedule. In addition to the understatement, the total for LGIP's in this summary was not mathematically correct because the TexasTERM CP investment was not included in the total.

- The Municipal Bonds by Entity Summary provided on the Combined Portfolio Schedule is broken down into two schedules. The first provides the percentage of the operating portfolio for each of the Municipal Bonds, and the second calculates this amount for the combined portfolio. Within each schedule, the "individual percentage(s) of portfolios" are totaled to calculate the "percentage of portfolio" for both the operating and combined portfolios. These totals should be in agreement with the percentage of portfolio for Municipal Bonds reported for each of the two portfolios. The summary totals were not mathematically correct and were not in agreement with the "percentage(s) of portfolio" reported for either the operating or combined portfolio.

December 2012:

On the summary of LGIP's (Combined Portfolio Schedule), the TexasTERM CP investment was not added to the formula for total LGIP's. In addition, on the Municipal Bonds by Entity Summary, the individual "percentage(s) of portfolio" calculated in the percent of total portfolio section were not included in the formula for the percentage total. As a result, the total for "percent of total portfolio" for Municipal Bonds reported in this summary was not mathematically correct and was not in agreement with the combined portfolio.

Significance:

Quarterly reports are presented to Commissioners' Court and the Investment Advisory Committee, which makes it especially important that they be accurate, consistent, and fairly stated. The supporting schedules included with the quarterly reports should also be in agreement where appropriate.

Recommendation:
Based on the noted significance, we recommend that Cash Investment Management take care to ensure the accuracy of their quarterly reports by verifying that all supporting schedules and reports included with the quarterly reports are accurate and in agreement where appropriate. They should verify the mathematical accuracy of calculated amounts as well.

Management Response:
CIM agrees that it is essential to provide accurate numbers throughout all reports. New procedures have been put into place to make sure that all calculations are correct.

Finding #2: Net Service Credit (Serious)
As a benefit for maintaining non-interest bearing accounts with high balances at Chase Bank, the bank calculates an earnings credit allowance on these accounts. On a monthly basis, if the earnings credit allowance earned by Travis County accounts is in excess of the bank fees payable on those accounts, the County does not have to pay the bank for these fees. The amount that the earnings credit exceeds bank fees each month is called a net service credit. Per the bank contract, the bank allows the net service credits to accrue over the length of the contract. At times, bank fees for a month may exceed the earnings credit allowance for that month resulting in a net service deficit. In these instances, the accrued net service credits can be used to "pay" this overage.

CIM is responsible for reviewing the bank's account analysis statement (bank statement) in order to determine the accuracy of the bank's calculation of the net service credit and to initiate payment if the bank service charges exceed the net service credit. There are three schedules CIM prepares to accomplish this review: the Monthly Variance Report, Net Service Credit Earnings Allowance Schedule, and the Chase Bank Account Analysis Reconciliation. Brief descriptions of the schedules are provided below:

- The Monthly Variance Report recalculates the monthly bank service charges by multiplying the activity volume per the bank statement by the applicable contractual fee amounts. These calculated amounts are then compared to the fees charged by the bank.

- The Net Service Credit Earnings Allowance Schedule provides a recapitulation of the net service credit balance including the opening balance, earnings credit allowance, bank charges, bank adjustments, and ending balance. The schedule is made up of three sections: the bank's calculation, CIM's calculation, and the variances.

- The Chase Bank Account Analysis Reconciliation begins with the ending net service credit balance per the bank statement and adjustments are made for the variances identified by CIM to arrive at the reconciled balance. The reconciled balance is then compared to CIM's calculated net service credit balance. This schedule assists in verifying the accuracy of the bank amounts entered into the previous two schedules. In addition, it provides visibility into the identification and correction of bank errors.

We reviewed these schedules for the examination period, noting that they appeared reasonable. However, we noted that CIM does not have a policy requiring management review of all three schedules.

Significance:
Supervisory review of bank statement review schedules is an important internal control protocol. This review helps ensure that errors are corrected and reconciling items and totals are properly supported. It is also helpful for supervisors to understand the bank statement review process in order to perform this duty if necessary.

Recommendation:
As noted in the previous examination report, we recommended that CIM implement procedures requiring management review of these schedules. In addition, both the preparer and reviewer should sign and date the reconciliations to document their responsibilities for these schedules.

Management Response:
The Investment Manager reviews the Monthly Variance Report that the Assistant Investment Manager prepares, checking for accuracy and making sure that the variance number has been correctly calculated. Any discrepancies with the bank are analyzed and discussed with the bank until a resolution is reached. The Manager will also begin reviewing the Net Service Credit Earnings Allowance Schedule and the Chase Bank Account Analysis Reconciliation on a monthly basis. Both members will sign and date the three schedules, certifying that they have been reviewed and have been found to be accurate.