

Audit

Follow-Up

As of September 30, 2010



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City Auditor

Non-Pension Investments

(Report #1020 issued June 21, 2010)

Report #1108

February 23, 2011

Summary

Twenty-four of the 30 action plan steps established to address the issues identified in our audit of the City's non-pension investments (report #1020) have been completed or otherwise resolved through management decision. The most significant completed action was the Treasurer-Clerk's recovery of \$2 million in investment earnings that had been incorrectly allocated to Blueprint 2000. Actions are in process to complete four of the remaining six steps.

In audit report #1020, we noted that as of June 30, 2009, the market value of all non-pension investments was approximately \$679 million. In that report we concluded that, overall, the Treasurer-Clerk's Office properly and adequately managed and invested available non-pension funds. As reported, no one sector/category lost capital and each sector/category performed reasonably well in relation to existing market conditions and policy benchmarks. The Treasurer-Clerk's Office took timely and appropriate actions to replace two external managers that were not performing well. We also found the Treasurer-Clerk's Office (1) established and implemented a sound and appropriate investment policy; (2) complied with that policy, as well as other legal requirements and industry practices; (3) established proper and adequate controls; (4)

monitored activity and performance; and (5) prepared periodic reports showing performance and status of non-pension investments.

However, one issue was identified that showed a need for the Treasurer-Clerk's Office to revise processes and controls pertaining to the allocation of investment earnings. Specifically, we found the Treasurer-Clerk's Office was allocating earnings based on outdated (static) account balances instead of more appropriate current (dynamic) balances. Corrective actions because of this issue included the City's recovery of \$2 million of investment earnings that had been incorrectly allocated to Blueprint 2000, an entity related to but separate from the City.

In addition to the issue relating to incorrect allocations of investment earnings, we identified several areas where we recommended enhancements and improvements to the non-pension investment processes and/or records.

Thirty action plan steps were developed to address the identified issues and areas. Each of those 30 steps was due for completion no later than September 30, 2010. Our follow up review showed:

- The Treasurer-Clerk's Office has completed 22 of those 30 steps.
- For two other steps, responsibility for completion is turned over to management taking into consideration the intended actions and circumstances.
- The Treasurer-Clerk's Office has taken actions towards the completion of four additional steps.

- Actions remain to be completed for the remaining two steps.

Remaining actions (pertaining to six action plan steps) to be completed include:

- Recovering an additional \$68,700 from Blueprint 2000.
- Making retroactive calculations and adjustments for investment earnings, relating to City funds that were invested through other (non-SPIA) external entities and internally by Treasurer-Clerk investment staff, which were incorrectly allocated due to use of outdated (static) account balances.
- Obtaining updated arbitrage determinations for applicable bond proceeds.
- Recovering overcharged fees identified in the initial audit from the City's contracted custodian.
- Having applicable external managers certify they reconcile their activity to that reported by the City's custodian and report any unresolved issues to the Treasurer-Clerk's Office.
- Updating the "Investment Internal Control Procedures" to reflect the current circumstances and processes.

We commend the Treasurer-Clerk's Office for their significant efforts taken to date. We also appreciate the cooperation and assistance provided by Treasurer-Clerk and Accounting Services staffs during this audit follow-up.

Scope, Objectives, and Methodology

We conducted this audit follow-up in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on

our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit follow-up objectives.

Report #1020

The scope of report #1020 included a review of activity and performance of the City's non-pension investments. The objectives were to determine whether:

- The City has a sound and proper non-pension investment policy;
- The City complied with its non-pension investment policy, legal requirements, and sound business practices;
- Contracts and agreements with third parties contain appropriate language and terms to protect the City's interest;
- Investment transactions are properly authorized, executed, documented, and otherwise in the best interest of the City;
- Monitoring and oversight of the non-pension investment function is appropriate;
- Adequate internal controls have been established in regard to the non-pension investment function; and
- Earnings performance has been successful in relation to established benchmarks.

Activity and performance over the three-year period ending June 30, 2009, was reviewed and analyzed, with an emphasis on activity during the one-year period ending June 30, 2009.

Report #1108

This is our first follow-up on action plan steps identified in audit report #1020. The purpose of this follow up is to report on the progress and status of efforts to complete action plan steps due for completion as of September 30, 2010. To determine the status of the action plan steps, we interviewed staff, made observations, and reviewed relevant documentation.

Background

The City's invested non-pension funds are primarily comprised of (1) operating cash that temporarily is not needed for disbursement, (2) bond proceeds not immediately disbursed for the projects or purposes for which the related bonds were issued, and (3) bond reserves which must be held and invested pursuant to bond covenants. The Office of the Treasurer-Clerk is responsible for investing and managing the City's non-pension assets. City Commission Policy #234 governs investment of non-pension funds. That policy provides for non-pension assets to be invested prudently and in a manner that (1) preserves capital, (2) ensures liquidity to meet operating and capital needs, and (3) maximizes earnings within established risk levels.

City non-pension investments are categorized into two basic groups: (1) Core Portfolio and (2) Specialized Portfolios. As of June 30, 2009, the Office of the Treasurer-Clerk reported the market value of all non-pension investments was approximately \$679 million. Those funds were invested and managed internally by Treasurer-Clerk staff and through contracted external managers and available government investment pools.

The last half of the period included in the scope of our audit was during times of major financial market instability and upheaval. During those times we noted the Treasurer-Clerk's Office maintained a close vigil on the City's non-pension investments and acted prudently during that period to protect the City's invested assets.

Previous Conditions and Current Status

In report #1020, we noted that, overall, based on performance adjusted for several audit issues presented in the report, the Treasurer-Clerk's Office properly and adequately managed and invested available non-pension funds. Our review showed no one sector/category lost capital and each sector/category performed reasonably well in relation to existing market conditions and policy benchmarks. For two instances where

external managers were not performing well, the Treasurer-Clerk's Office took timely and appropriate action to replace the managers and reinvest the applicable funds in appropriate investment vehicles. We also found that, for the most part, the Treasurer-Clerk's Office:

- Established and implemented a sound and appropriate investment policy.
- Complied with the non-pension investment policy, other applicable legal requirements, and industry practices.
- Established proper and adequate controls and processes, consistent with industry standards.
- Monitored activity, including that of applicable third parties.
- Prepared periodic reports showing performance and status of non-pension investments.

However, one issue was identified that showed a need for the Treasurer-Clerk's Office to revise processes and controls pertaining to the allocation of non-pension investment earnings. As noted in the reported status of the third action plan step in the following table (Table 1), corrective actions because of this issue included the City's recovery of \$2 million of investment earnings that had been incorrectly allocated to Blueprint 2000, an entity related to but separate from the City.

In addition to the issue relating to incorrect allocations of investment earnings, we identified several areas where we recommended enhancements and improvements to the non-pension investment processes and/or records.

Thirty action plan steps were developed to address the identified issues. Each of those 30 steps was due for completion no later than September 30, 2010. As shown below in Table 1:

- The Treasurer-Clerk's Office has completed 22 of those 30 steps.
- The Treasurer-Clerk's Office has taken significant actions towards the completion of four additional steps.

- For two other steps, responsibility for completion is turned over to management taking into consideration the intended actions and circumstances.

- Actions remain to be completed for the last two steps.

We commend the Treasurer-Clerk’s Office for their efforts to date.

**Table 1
Action Plan Steps from Audit Report #1020
Due as of September 30, 2010, and Current Status**

Action Plan Steps Due as of September 30, 2010	Current Status
Ensure equitable allocations of investment earnings	
<ul style="list-style-type: none"> • Updated (dynamic) account balances will be used to determine allocation percentages for each month’s allocation of non-pension investment earnings for the Core Portfolio. 	<ul style="list-style-type: none"> ✓ With the assistance of Accounting Services, the Treasurer-Clerk’s Office successfully automated the investment earnings allocation process. Under that automated process monthly investment earnings are allocated to applicable City funds using average daily investment balances (dynamic balances) of those funds. This process provides for an equitable and appropriate allocation of investment earnings.
<ul style="list-style-type: none"> • The portion of the earnings allocation process performed manually will be automated. 	<ul style="list-style-type: none"> ✓ As noted above, the Treasurer-Clerk’s Office successfully automated the investment earnings process with the assistance of Accounting Services. Under that automated process monthly investment earnings are allocated to applicable City funds using average daily investment balances (dynamic balances) of those funds. This process provides for an equitable and appropriate allocation of investment earnings.
<ul style="list-style-type: none"> • Earning allocations for the Core Portfolio since the summer 2008 will be recalculated retroactively using appropriate proportions (i.e., monthly earnings will be allocated based on proportional balances determined for each month). Adjustments will be made to affected funds. 	<ul style="list-style-type: none"> ❖ The Treasurer-Clerk’s Office retroactively recalculated investment earning allocations using updated and appropriate (dynamic) investment balances. Those recalculations were for fiscal years 2008, 2009, and 2010. Appropriate adjustments were made based on those retroactive calculations. <u>Those adjustments resulted in a transfer of \$2,044,087 from Blueprint 2000 to the City, as earnings had been incorrectly allocated to Blueprint 2000 when outdated (static) account balances were used as noted in the initial audit report.</u> <p>Our review of the adjustment showed it was correct. However:</p>

	<ul style="list-style-type: none">- We found the Treasurer-Clerk’s Office inadvertently excluded one month’s investment earnings from the recalculations. Accordingly, an additional adjustment is necessary for that month. Our analysis shows that adjustment should result in an additional transfer of \$68,700 from Blueprint 2000 to the City.- While the Treasurer-Clerk’s Office made the retroactive calculations and necessary adjustments for the investment category involving City and Blueprint 2000 funds, no retroactive calculations or adjustments were made for other investment categories. Specifically, the adjustments made were for those City (and Blueprint 2000) funds commingled and invested through the State of Florida Special Purpose Investment Account (SPIA). However, no retroactive calculations and adjustments were made for City funds invested through other external entities (i.e., Florida League of Cities and Galliard, an external investment manager) or internally by Treasurer-Clerk investment staff. Such retroactive calculations using appropriate updated (dynamic) account balances for those other investments categories are necessary to enable Treasurer-Clerk staff to make correcting adjustments (of previously allocated investment earnings) between different City funds. For perspective, the adjustments for the SPIA investments not only resulted in a correcting transfer of over \$2 million from Blueprint 2000 to the City, but also a correcting reallocation of investments earnings, totaling \$784,875, from a City sewer construction fund to other City funds. <p>We commend the Treasurer-Clerk’s Office for the automation of the investment allocation process and the correcting adjustments made to date. We recommend the Treasurer-Clerk’s Office make additional retroactive calculations and correcting</p>
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	<p>adjustments to resolve those remaining items described above.</p>
<ul style="list-style-type: none"> • Adjustments will be made to correct the over and under-allocations of bond reserve earnings as identified in the initial audit report (page 23 of that report). 	<ul style="list-style-type: none"> ✓ We found the Treasurer-Clerk’s Office made appropriate adjustments to correct the over- and under-allocations of bond reserve investment earnings as identified and reported in the initial audit report.
<ul style="list-style-type: none"> • Future allocations of earnings on bond reserves will be corrected for the worksheet error explained in the initial audit report (pages 22 and 23 of report #1020). 	<ul style="list-style-type: none"> ✓ In addition to making adjustments to correct over and under-allocations identified in the initial audit report, the Treasurer-Clerk’s Office made necessary corrections for the period subsequent to the initial audit. Furthermore, as described in the reported status for the first action plan step within this table, the Treasurer-Clerk’s Office automated the investment earnings allocation process. That process has been successfully applied not only to bond proceeds but also bond reserve funds.
<p>Ensure an adequate and proper policy</p>	
<ul style="list-style-type: none"> • City Commission Policy #234 will be updated to make the corrections, clarifications, and enhancements as described on pages 23 through 26, 40, and 49 of the audit report. 	<ul style="list-style-type: none"> ✓ The Treasurer-Clerk updated City Commission Policy #234 (Non-Pension Investment Policy) to make the corrections, clarifications, and enhancements addressed in various places within the initial audit report. Those updates included, for example: <ul style="list-style-type: none"> - Removing references to invalid legal provisions. - Clarifying the applicability of diversification requirements and maximum maturity durations for investments in U.S. Agency securities. - Revising the term “portfolio percentage” in various places within the policy to clarify maximum and minimum investment amounts for diversification purposes. - Adding additional language stating that any specialized portfolios must be approved by the Investment Advisory Committee. - Clarifying the specific investment categories to which policy benchmarks pertain.

	<ul style="list-style-type: none"> - Correcting two minor policy inaccuracies (i.e., replaced the word “corporation with the term “government” in one provision and corrected a policy reference in another provision). <p>The updated policy was submitted to and approved by the City Commission (meeting as the Sinking Fund Commission) on September 29, 2010.</p> <p>(NOTE: Two recommended policy changes were not made. In our discussions, Treasurer-Clerk staff indicated their intent to establish practices that meet the audit recommendations, but not incorporate those practices into the policy. The two applicable items were (1) requiring Treasurer-Clerk investment staff to check appropriate regulatory websites for any disciplinary issues and references for potential broker/dealers considered for the acquisition/disposition of internally managed securities and (2) requiring annual disclosures regarding known or potential conflicts of interest by key Treasurer-Clerk staff and Investment Advisory Committee members. As the Treasurer-Clerk’s Office is implementing practices that meet the intent of the audit recommendations, this is no longer considered an issue.)</p>
<p>Ensure compliance with policy requirements</p>	
<ul style="list-style-type: none"> • Criteria will be developed for classification and reporting of bond proceeds investments as to portfolio type. 	<ul style="list-style-type: none"> ✓ In the initial audit we determined there were differing classifications of bond proceeds, with most classified as part of the Core Portfolio and the remainder classified as a Specialized Portfolio. To preclude future questions as to the purpose and intent of classifications of bond proceeds, we recommended the Treasurer-Clerk’s Office consider establishing documented criteria for determining how bond proceeds investments should be classified. In our discussions during this follow up review, the Treasurer-Clerk’s Office indicated the intent to continue use of professional judgment in classifying bond proceeds (and other investments as applicable) as “Core” or “Specialized”

	<p>investments. The City’s Non-Pension Investment Policy provides that Specialized Portfolios may be designated from time to time by the Treasurer-Clerk’s Office; however, such establishment shall be approved by the City’s Investment Advisory Committee. An additional provision with wording to that effect was added to the policy as part of the recent revisions in September 2010. Our current review shows that all invested bond proceeds are classified as part of the Core Portfolio. Based on these circumstances the initial audit issue is considered resolved.</p>
<ul style="list-style-type: none"> • The reporting and oversight process will be enhanced to identify all (even minor) violations of policy maturity duration requirements. 	<ul style="list-style-type: none"> ✓ In the initial audit we determined there were two relatively minor instances of non-compliance with policy maturity duration requirements. Those instances were not identified and reported by the Treasurer-Clerk’s Office in the applicable quarterly performance report. Accordingly, corrective actions were not timely initiated to bring the policy into compliance. We recommended the Treasurer-Clerk’s Office enhance its review process to detect all instances of policy noncompliance so that timely corrective actions could be initiated. During our current follow up review we determined the information reported on the Treasurer-Clerk’s September 30, 2010 quarterly performance report was adequate to identify noncompliance with the various policy requirements. Our review showed no noncompliance (all requirements were met). Accordingly, we consider this issue resolved.
<ul style="list-style-type: none"> • Written approval will be sought from Ambac Assurance for investment of the Airport System Revenue Refunding Bonds (2004 series) in the State of Florida SPIA. 	<ul style="list-style-type: none"> ✓ In the initial audit we identified one investment of bond reserve funds that was not clearly documented as allowed by the applicable bond covenant. In response to this issue, the Treasurer-Clerk liquidated the applicable investment and reinvested the proceeds (bond reserve funds) in a clearly allowed investment instrument (United States Treasury obligation).

Comply with federal arbitrage requirements	
<ul style="list-style-type: none"> • Updated arbitrage determinations will be made. 	<ul style="list-style-type: none"> ❖ In the initial audit we reported that timely arbitrage determinations had not been completed for applicable bond issuances. During this follow up review we found the Treasurer-Clerk’s Office was in the process of obtaining updated arbitrage determinations. We will continue to follow up on this issue in our subsequent engagements.
Ensure accurate, informative, and complete performance and status reports	
<ul style="list-style-type: none"> • Reports prepared by the Treasury Analyst will be reviewed by the Deputy Treasurer-Clerk for accuracy and completeness prior to distribution of those reports to management and the IAC. 	<ul style="list-style-type: none"> ✓ In their response to our inquiry, the Treasurer-Clerk’s Office indicated reports are reviewed prior to distribution to management and the City’s Investment Advisory Committee. Our review of a recent quarterly performance report (for the quarter ended September 30, 2010) showed the report to be accurate and complete.
<ul style="list-style-type: none"> • All non-pension investments will be addressed in the periodic reports, including GICs and the Securities Lending Portfolio. 	<ul style="list-style-type: none"> ✓ Our review of the most recent quarterly performance and status report (quarter ended September 30, 2010) showed the Treasurer-Clerk’s Office included most of the investments that were not previously addressed or reported (i.e., GICs, Forward Delivery Agreement, and a money market account). However, our review also showed the Security Lending Portfolio was not addressed and/or included in that report. In response to our inquiry on this matter, the Treasurer-Clerk’s Office stated a decision was made to not reflect the Security Lending Portfolio on the periodic performance and status reports. The Treasurer-Clerk’s Office indicated the City’s Investment Advisory Committee was aware of those investments and related activity, and that due to the relatively safe and liquid nature of that investment portfolio, regular written reports are not considered necessary. Based on the inclusion of the other investments addressed in the initial audit and the noted management decision, this action step is considered completed.

<ul style="list-style-type: none"> Investments will be classified on periodic reports in a manner that is consistent with classifications in an updated City Commission Policy #234. 	<ul style="list-style-type: none"> ✓ The Treasurer-Clerk’s Office enhanced the format of the periodic performance reports such that investments are presented in a manner that is consistent with classifications and provisions of the City’s Non-Pension Investment policy.
<ul style="list-style-type: none"> The periodic reports will be enhanced to report on additional policy requirements (e.g., duration) as addressed on pages 29 through 31 of the audit report. 	<ul style="list-style-type: none"> ✓ In our initial audit report we recommended the Treasurer-Clerk’s Office consider adding other tables and graphs in the periodic performance and status reports to demonstrate compliance (or noncompliance) with other policy requirements, including: <ul style="list-style-type: none"> - Maximum amounts that can be invested in local government pools. - Maximum amounts that can be invested in allowed money market funds. - Maximum amounts that can be invested through individual external managers. <p>We also recommended adding a table or graph to demonstrate compliance (or noncompliance) with policy diversification requirements for the Core Portfolio in its entirety as defined by policy. Our review of the most recent quarterly performance and status report (quarter ended September 30, 2010) showed the Treasurer-Clerk’s Office did include tables and graphs that demonstrated compliance with the other policy requirements and for the Core Portfolio in its entirety. Additionally, the tables and graphs were enhanced to clearly address compliance with duration and average maturity policy requirements.</p>
<ul style="list-style-type: none"> Graphical representations of non-pension investments will be prepared on the same basis or the bases will be disclosed in a legend to the graphs. 	<ul style="list-style-type: none"> ✓ In our follow up review we found the graphical representations within the most recent performance and status report (quarter ended September 30, 2010) were prepared using a consistent basis (market value).
<ul style="list-style-type: none"> Weighted averages will be properly applied when disaggregating and reporting performance and maturity durations for 	<ul style="list-style-type: none"> ✓ Our review of the most recent performance report (quarter ended September 30, 2010) showed weighted averages were properly

<p>applicable investment categories.</p>	<p>applied in the reporting of performance returns and maturity durations.</p>
<ul style="list-style-type: none"> • Policy benchmarks will be accurately and correctly determined. 	<ul style="list-style-type: none"> ✓ Our review of the most recent performance and status report (quarter ended September 30, 2010) showed appropriate corrective actions for two of the three errors addressed in the initial audit report. Specifically, (1) proper and accurate maturity ranges were calculated and used in determining the benchmarks and (2) correct return rates were identified and used. However, corrective actions were not made for the third error as Treasurer-Clerk staff continued to use incorrect “assumed portfolio compositions” when calculating the structure benchmark. Upon notification of this continuing error, Treasurer-Clerk staff made appropriate revisions to their worksheets and formulas such that correct compositions (defined by policy) will be used for future benchmark determinations. Accordingly, this issue is considered completed and resolved.
<p>Provide for adequate controls and processes</p>	
<ul style="list-style-type: none"> • Efforts will be made to recover the net overcharge of \$13,445 from the custodian. 	<ul style="list-style-type: none"> ❖ The Treasurer-Clerk’s Office indicated discussions are ongoing with the custodian as to the overpayments identified in the initial audit. Our review of a recent invoice submitted by the custodian and paid by the Treasurer-Clerk’s Office showed the custodian continues to bill the City for inappropriate fees due to the same circumstances identified in the initial audit. Those circumstances include (1) billing the City a “custody fee” for a portfolio tracked and analyzed by the custodian but not “custodied” on behalf of the City and (2) billing the City for the same portfolio twice in regard to performance and analytical procedures. We encourage the Treasurer-Clerk’s Office to complete discussions and negotiations with the custodian and resolve this matter. Verified overpayments should be recovered.
<ul style="list-style-type: none"> • The Deputy Treasurer-Clerk will ensure that fees billed by the custodian are accurate and reasonable. 	<ul style="list-style-type: none"> ❖ The Treasurer-Clerk’s Office indicated in their response to our inquiry that the Deputy Treasurer-Clerk was in the process of

	<p>ensuring fees billed by the custodian are correct and reasonable. As described in our reported status of the previous action plan step within this table, the Treasurer-Clerk's Office has not completed discussions with the custodian as to the fee overcharges identified in the initial audit. As also reported, some of the circumstances resulting in those overcharges are still occurring (i.e., appears overpayments are continuing due to some of the same billing errors). As noted above, we encourage the Treasurer-Clerk's Office to complete discussions and negotiations with the custodian and resolve this matter.</p>
<ul style="list-style-type: none"> • Adequate documentation will be retained for future transactions to clearly demonstrate the evaluation of and justification for securities selected through competitive solicitation. 	<ul style="list-style-type: none"> ✓ The Treasurer-Clerk's investment staff provided evidence showing preparation and retention of adequate records demonstrating appropriate evaluation and selection of securities when competitive solicitation methods were used.
<ul style="list-style-type: none"> • Adequate documentation will be retained for future transactions to clearly demonstrate that fair and reasonable prices (i.e., comparable to current market values) were received in connection with unsolicited sales of individual securities. 	<ul style="list-style-type: none"> ✓ The Treasurer-Clerk's investment staff provided documentation showing fair prices were paid the City in connection with sales of internally managed securities. That documentation included printouts from financial websites available to Treasurer-Clerk staff.
<ul style="list-style-type: none"> • Requests for essential/critical background information on brokers/dealers will be enhanced to request disclosures/assertions as to recent or current litigation or regulatory violations. 	<ul style="list-style-type: none"> ➤ Since the date at which this action step was due for completion, the Treasurer-Clerk's Office has not hired any new broker/dealers. At the time at which a new broker/dealer is hired and/or updated information is obtained for current broker/dealers, the Treasurer-Clerk's Office indicated that requests will be made for certifications and disclosures as to any litigation or regulatory violations applicable to their firm(s). Additionally, Treasurer-Clerk investment staff indicated they continue to check regulatory websites for evidence of investment firm litigation or violations during the process of evaluating firms as potential brokers/dealers. Accordingly, responsibility for completion of this step is turned over to Treasurer-Clerk management.

<ul style="list-style-type: none"> Annual disclosures and assertions as to conflicts of interest will be required from key Treasurer-Clerk staff and IAC members. The investment policy will be revised to provide for those annual disclosures/assertions. 	<ul style="list-style-type: none"> ✓ The Treasurer-Clerk decided not to revise the City’s non-pension investment policy to require annual disclosures/certifications. Instead, the Treasurer-Clerk will include a requirement for those annual disclosures/certifications within its “to be revised” Investment Internal Control Procedures. (See the last action plan step within this table.) We noted that as of the date of our follow up fieldwork in January 2011, Treasurer-Clerk management and investment staff had recently completed updated disclosures/certifications. Additionally, the Treasurer-Clerk’s Office was in the process of obtaining updated disclosures/certifications from IAC members. Accordingly, this step is considered resolved based upon the Treasurer-Clerk’s intent to obtain annual disclosures/certifications through the office’s Investment Internal Control Procedures.
<ul style="list-style-type: none"> Efforts will be enhanced to ensure IAC meeting minutes are reviewed and approved by Treasurer-Clerk management and the IAC. 	<ul style="list-style-type: none"> ✓ Our follow-up review showed the Treasurer-Clerk’s Office has ensured minutes of subsequent quarterly IAC meetings have been reviewed and approved by the Treasurer-Clerk and the IAC.
<ul style="list-style-type: none"> Treasurer-Clerk staff will work with Accounting Services staff to arrange for periodic account statements to be provided directly to, or accessed directly by, Accounting Services. 	<ul style="list-style-type: none"> ✓ Accounting Services staff performing periodic account reconciliations now receive the statements in question directly from or through the applicable third parties. Statements for one of the two parties are received directly in the mail. Statements for the other party are accessed directly by Accounting Services staff through the third party’s website using a secured password.
<ul style="list-style-type: none"> Treasurer-Clerk staff will reconcile the temporary clearing account, established for investment receipts, on a monthly basis. 	<ul style="list-style-type: none"> ✓ In our current review we determined the Treasurer-Clerk’s staff is timely reviewing, evaluating, recording, and reconciling the temporary clearing account established for the receipt of investment earnings.
<ul style="list-style-type: none"> Treasurer-Clerk staff will have applicable external managers certify they reconcile their activity to that reported by the custodian and will report any unresolved issues to the Treasurer-Clerk’s Office. 	<ul style="list-style-type: none"> ✗ In response to our inquiry as to the current status of this action plan step, the Treasurer-Clerk’s Office responded its intentions were to request the certifications from the two applicable non-pension investment managers at the same time the certifications were

	<p>requested from pension investment managers. However, the requests were not made of the non-pension investment managers. The Treasurer-Clerk’s Office indicated request would, however, be made. We will follow up on this action plan step in our subsequent engagement.</p>
<ul style="list-style-type: none"> • The two system administrator permissions addressed in the audit report will be deleted. 	<ul style="list-style-type: none"> ✓ As reported in the initial audit report, we observed the deletion of the two system administrator permissions not assigned to Treasurer-Clerk staff.
<ul style="list-style-type: none"> • Treasurer-Clerk staff will ensure future agreements executed for non-negotiable CDs restrict the transfer of matured/redeemed funds to the City’s bank account. 	<ul style="list-style-type: none"> ➤ We found that no new non-negotiable certificates of deposit (CDs) have been acquired since the initial audit. We also found that the CD in question was subsequently properly redeemed and deposited into the City’s bank account. The Treasurer-Clerk’s Office indicated future agreements executed with institutions for non-negotiable CDs will properly restrict the transfer of the matured/redeemed funds to the City’s bank account. Accordingly, responsibility for completion of this step is turned over to Treasurer-Clerk management.
<ul style="list-style-type: none"> • The “Investment Internal Control Procedures” will be updated to reflect current circumstances and processes. 	<ul style="list-style-type: none"> ✘ In response to our written and verbal request as to the current status of this action plan step, Treasurer-Clerk staff responded they have not yet updated the internal operating procedures to accurately reflect the current operating environment. Treasurer-Clerk staff indicated the procedures would be updated when all other action plan steps were completed and decisions as to final corrective actions/steps were made and implemented. We will follow up on this step in our subsequent follow up engagement.

Table Legend:

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| <ul style="list-style-type: none"> • Issue to be addressed from the original audit. | <ul style="list-style-type: none"> ✓ Issue addressed and resolved. ❖ Action initiated but not completed. ➤ Activity not occurred to which corrective actions can be applied; appropriate intentions stated so responsibility for finalization of action step turned over to management. ✘ Action plan step not completed. |
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Conclusion

Table 1 above shows significant effort in the completion of the 30 action plan steps established to address the issues identified in our initial audit. The most significant action included the City's recovery of approximately \$2 million in investment earnings that had been incorrectly allocated to Blueprint 2000. Additionally, enhancements and improvements were made to various processes and documentation.

Remaining actions to be completed include:

- Recovering an additional \$68,700 from Blueprint 2000.
- Making retroactive calculations and adjustments for investment earnings, relating to City funds that were invested through other (non-SPIA) external entities and internally by Treasurer-Clerk investment staff, which were incorrectly allocated due to use of outdated (static) account balances.
- Obtaining updated arbitrage determinations for applicable bond proceeds.

- Recovering overcharged fees identified in the initial audit from the City's contracted custodian.
- Having applicable external managers certify they reconcile their activity to that reported by the City's custodian and report any unresolved issues to the Treasurer-Clerk's Office.
- Updating the "Investment Internal Control Procedures" to reflect the current circumstances and processes.

We commend the Treasurer-Clerk's Office for the significant actions completed to date and efforts and intentions to resolve the remaining issues. We also appreciate the cooperation and assistance provided by Treasurer-Clerk and Accounting Services staffs during this audit follow-up.

Appointed Official's Response

City Treasurer-Clerk:

I am very pleased with the progress that has been made to date by the Treasurer-Clerk's staff in implementing the audit recommendations. We expect to have all the recommendations implemented within the next six months.

Copies of this audit follow-up #1108 or audit report #1020 may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

Audit follow-up conducted by:

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