



Audit of the City Investment Pool Management

August 11, 2021

Mark S. Swann, City Auditor

Mayor

Eric Johnson

Mayor Pro Tem

Chad West

Deputy Mayor Pro Tem

Jaime Resendez

Council Members

Carolyn King Arnold

Tennell Atkins

Adam Bazaldua

Paula Blackmon

B. Adam McGough

Cara Mendelsohn

Jesse Moreno

Omar Narvaez

Paul E. Ridley

Jaynie Schultz

Casey Thomas, II

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Executive Summary

Objective and Scope

The objective of this audit was to determine if recorded investment income is complete and accurate, allocation of investment income to fund balances is complete and accurate, and expenses to manage the City of Dallas Investment Pool are supported and reasonable when compared to investment returns. We also determined if investment activities complied with the requirements of the *Texas Public Funds Investment Act*.

The scope of this audit included management operations from Fiscal Year 2018 through 2020.

What We Recommend

No recommendations were identified.

Background

The Cash and Investment Management Division within the City Controller's Office is responsible for administering the City's banking relationships, managing daily liquidity, and investing surplus cash under the guidelines of the *Texas Public Funds Investment Act* and the *City of Dallas Investment Policy*.

The *City of Dallas Investment Policy* is reviewed annually with the most recent changes adopted by the City Council in October 2020. The objective of the Investment Policy is to provide safety of principal, liquidity sufficient to meet anticipated cash requirements, and attain a market rate of return. As of December 31, 2020, the City's investment pool portfolio held over \$2.3 billion invested in local government investment pools (LGIPs), money market mutual funds, United States treasury bonds, and United States agencies.

The Investment Policy establishes an Investment Committee to determine investment guidelines, general strategies, and monitor performance. The Investment Committee is composed of the City's Chief Financial Officer, the City Controller, the Treasury Manager, and the Investment Manager.

What We Found

The City's Controller's Office generally records and allocates investment income to fund balances accurately and completely. Consistent with the objectives of the City's investment policy, expenses to manage the investment pool are supported and reasonable when compared to investment returns. In addition, investment activities complied with the *Texas Public Funds Investment Act*.

Objectives and Conclusions

1. Is recorded investment income complete and accurate?

Yes. Sampled investment transactions recorded in the City's investment management system, Tracker Portfolio, were complete and accurate when compared to source documentation from banks and investment pool administrators.

See [Appendix A](#) for information regarding investment management procedures.

2. Is allocation of investment income to fund balances complete and accurate?

Generally, yes. The allocation of investment income to fund balances is complete and generally accurate. The Financial Division of the Controller's Office allocates investment income to fund balances based on active funds' average daily cash balances during the month. Negligible inaccuracies occur when a fund has a cash balance on fewer days than the number of days in the subject month. In addition, some funds denoted as "Inactive" in the AMS Advantage system for the same period were allocated a negligible amount of investment income. This inaccuracy in the allocation methodology may cause a material allocation error if a fund were to have a large cash balance.

3. Are expenses to manage the City of Dallas Investment Pool supported and reasonable when compared to returns?

Yes. The objective of the *City of Dallas Investment Policy* is to provide safety of principal, liquidity sufficient to meet anticipated cash requirements, and to attain a market rate of return. Consistent with this objective, expenses to manage the City's investment pool are supported and reasonable when compared to investment returns. Expenses charged by investment management service providers, such as administrators of various local government investment pools (LGIPs) authorized by the Investment Committee for investment, are netted in returns to each participant. Information statements and agreements explain how the fees charged to participants are used, which includes operating expenses of the program, transaction charges, record keeping expenses, audits and legal counsel, and other administrative and marketing services.

Fees charged by the LGIP administrators generally align with average investment returns. For example, the highest fee to participants is charged by TexasTerm LGIP (0.20 percent) who also had the highest average investment return (1.11 percent) for calendar year 2020. (See [Exhibit 1](#))

Exhibit 1:

Local Government Investment Pool (LGIP) Expense and Return

LGIP	Fee (%)	Investment Return 2020 Average (%)
Logic	0.0975	0.70
TexStar	0.06	0.43
Texas Class	0.12 ¹	0.69
Texas Daily	0.14	0.51
TexasTerm	0.20	1.11
TexPool	0.045	0.44
TexPool Prime	0.055	0.66

Sources: LGIP information statements and agreements, City Investment Manager.

4. Did investment activities comply with the requirements of the *Texas Public Funds Investment Act*?

Yes. Investment activities complied with the requirements of the *Texas Public Funds Investment Act* regarding the City's investment policy, governance, investment types, and required reporting.

¹ Fees for the Texas Class LGIP are determined according to a tiered schedule of cumulative invested balances, ranging from 0.12 percent on the first \$1,000,000,000 to 0.09 percent for balances over \$3,000,000,000. The City's invested balance in the TexasClass LGIP was \$330,049,329 as of October 31, 2020.

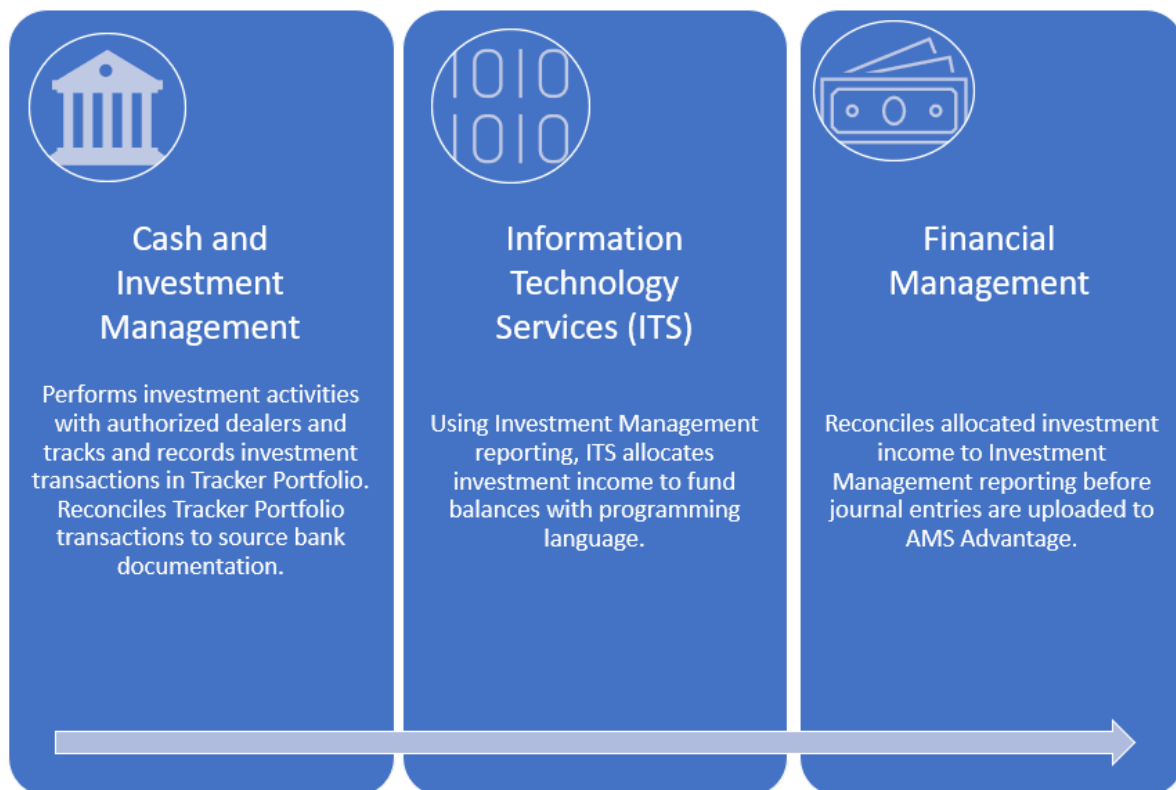
Appendix A: Background and Methodology

Background

The Cash and Investment Management Division within the Controller's Office is responsible for administering the City's banking relationships, managing daily liquidity, and investing surplus cash under the guidelines of the *State of Texas Public Funds Investment Act* and the *City of Dallas Investment Policy*. The Financial Management Division within the Controller's Office is responsible for recording investment income in the City's financial system, AMS Advantage, with assistance from Information Technology Services. [Exhibit 2](#) highlights investment management procedures followed by the divisions.

Exhibit 2:

Investment Management Procedures



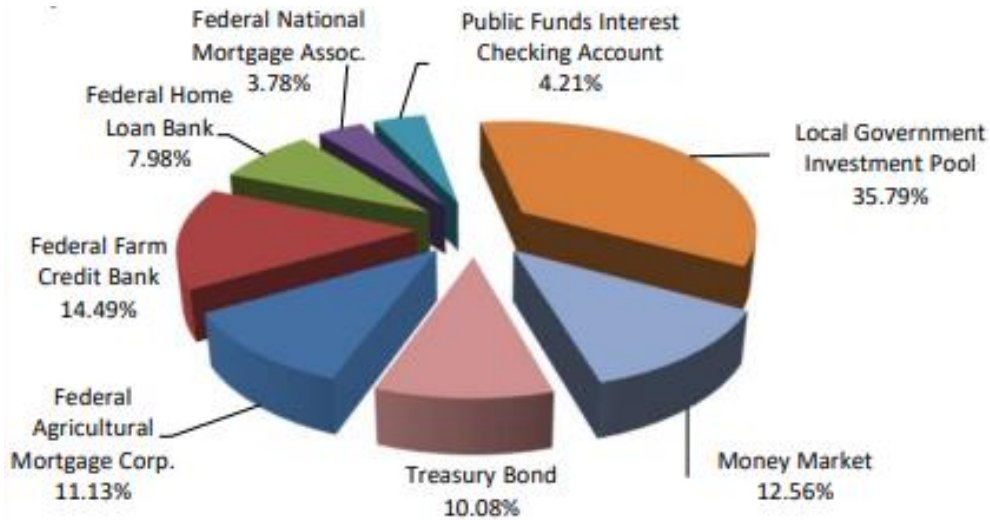
Source: Interviews and documentation received from the City Controller's Office.

The *City of Dallas Investment Policy* is reviewed annually with the most recent changes adopted by the City Council in October 2020. The objective of the Investment Policy is to provide safety of principal, liquidity sufficient to meet anticipated cash requirements, and to attain a market rate of return. As of December 31, 2020, the City's main investment pool portfolios held over \$2.3 billion invested in local

government investment pools (LGIPs), money market mutual funds, United States treasury bonds, and United States agencies. An additional \$140 million is invested in LGIPs and money markets for specific portfolios kept separate from the main investment pool portfolios, including the Water Reserve, Arts Endowment, and Commercial Paper portfolios. Exhibit 3 shows the percentage of dollars invested for each investment type.

Exhibit 3:

City of Dallas Investment Pool Allocation as of December 31, 2020



Source: City of Dallas December 31, 2020 Quarterly Investment Report

The Investment Policy establishes an Investment Committee to determine investment guidelines, general strategies, and monitor performance. The Investment Committee is composed of the City’s Chief Financial Officer, the City Controller, the Treasury Manager, and the Investment Manager.

Investment Types

The following investment types are authorized for use in investing surplus cash under applicable guidelines of the *Texas Public Funds Investment Act* and the *City of Dallas Investment Policy*:

- Local government investment pools (LGIPs) – Entities created under the Texas Government Code to invest public funds jointly on behalf of the governmental participants. LGIPs in which the City of Dallas invests in may in turn invest in obligations of the United States or its agencies, collateralized repurchase agreements, money market mutual funds registered by the Securities and Exchange Commission, commercial paper, United States Treasury bills, and certificates of deposits.
- Money market mutual funds – Security portfolios regulated by the Securities and Exchange Commission.

- United States treasury bonds – Debt obligations which carry the full faith and credit guarantee of the United States government.
- United States agencies (Federal Banks and Mortgage Corporations) – Debt obligations issued by U.S. government-sponsored enterprises or other federally related entities.

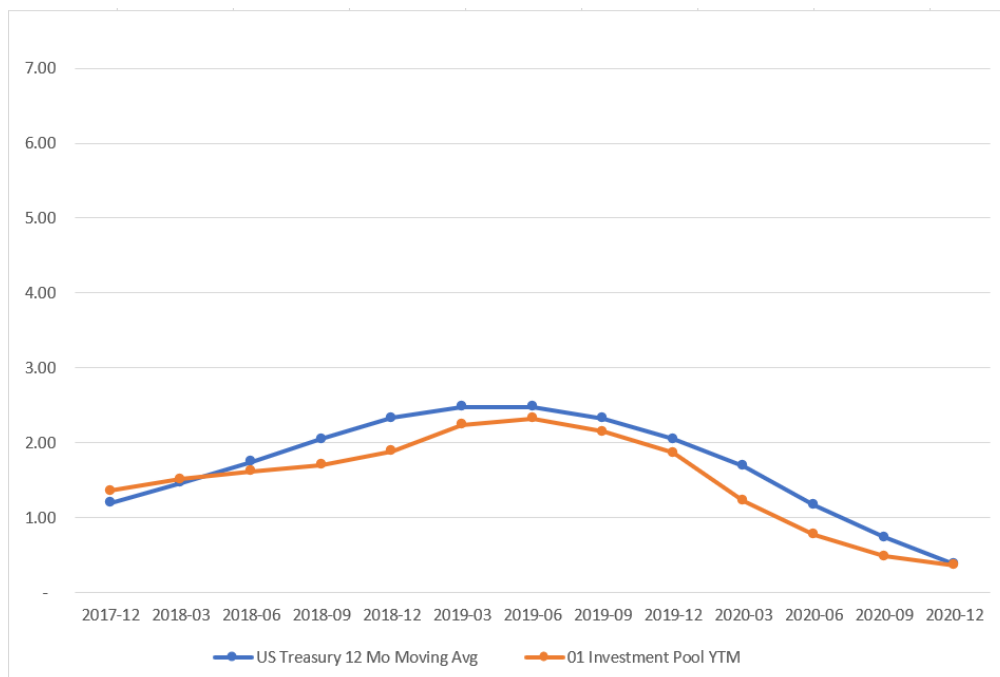
According to the *City of Dallas Investment Policy*, all authorized investments must meet the requirements of the *Texas Public Funds Investment Act*.

Investment Yield

The City's investment yield has historically performed slightly below the benchmark set by Section 17.1 of the *City of Dallas Investment Policy*.² Exhibit 4 shows the City's investment pool portfolio yield compared to the benchmark from quarter ending December 31, 2017 through December 31, 2020.

Exhibit 4:

Total Portfolio Yield vs. City of Dallas Benchmark



Source: City of Dallas Quarterly Investment Reports

²Section 17.1 of the *City of Dallas Investment Policy* states that the benchmark for the Investment Pool is the 12-month moving average yield on Treasury 1-year constant maturities as reported by *Federal Reserve Statistical Release H.15*.

State of Texas Public Funds Investment Act

State of Texas Government Code, Chapter 2256, *Public Funds Investment* provides governing bodies of certain entities, including local governments, with the authority to purchase, sell, and invest their funds in investments authorized under the chapter. Governing bodies must have approved investment policies according to the standard of care prescribed in the chapter. Chapter 2256 also prescribes specific requirements for investment policies, training, reporting, and safeguards against conflicts of interest.

Methodology

To accomplish our audit objectives, we interviewed key personnel; reviewed applicable City and State compliance requirements; reviewed written policies and procedures; considered all five internal control components of the *Standards for Internal Control in the Federal Government*; tested a sample of investment transactions for completeness and accuracy; and, reviewed investment reporting and compliance documentation. The risk of fraud, waste, and abuse was also considered.

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major Contributors to the Report

Holly Hart, CPA, CIA – In-Charge Auditor
Anatoli V. Douditski, CIA, MPA, ACDA – Audit Manager

Appendix B: Management's Response

Memorandum



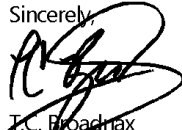
DATE: August 11, 2021
TO: Mark S. Swann – City Auditor
SUBJECT: Response to Audit of the City Investment Pool Management

This letter acknowledges the City Manager's Office and the City Controller's Office received the *Audit of the City Investment Pool Management*.

The City has strong internal controls in place to ensure the completeness and accuracy of the fund and related transactions, as well as compliance with the *Texas Public Funds Investment Act*. We are pleased, but not surprised, that the City Auditor's concluded that the City Controller's Office records and allocates investment income to fund balances accurately and completely and complies with the *Texas Public Funds Investment Act*.

We appreciate the professionalism and quality of work demonstrated by your staff throughout this engagement.

Sincerely,



T.C. Broadnax
City Manager

C: Kimberly Bizer Tolbert, Chief of Staff
M. Elizabeth Reich, Chief Financial Officer
Sheri Kowalski, Director, City Controller's Office

"Our Product is Service"
Empathy | Ethics | Excellence | Equity