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CITY OF HOUSTON

**Lee P. Brown, Mayor
Sylvia R. Garcia, City Controller**

**Cash-Management Practices
Financial Audit**



June 2001



McCONNELL JONES LANIER & MURPHY, LLP
CONSULTANTS & BUSINESS ADVISORS



CITY OF HOUSTON

Post Office Box 1562 Houston, Texas 77251-1562

Lee P. Brown, Mayor

CITY COUNCIL MEMBERS: Bruce Tatro Carol M. Galloway Mark Goldberg Jew Don Boney, Jr. Rob Todd Mark A. Ellis Bert Keller Gabriel Vasquez
John E. Castillo Annise D. Parker Gordon Quan Orlando Sanchez Chris Bell Carroll G. Robinson CITY CONTROLLER: Sylvia R. Garcia

July 26, 2001

City Council Members
City of Houston, Texas

**SUBJECT: Office of the City Controller/Finance and Administration Department
Cash-Management Practices Financial Audit**

Dear Council Members:

We are pleased to present the Cash-Management Practices Financial Audit Report of the Office of the City Controller and the Finance and Administration Department. This audit, jointly managed by the Office of the Mayor and the Office of the City Controller, was performed by the firm of McConnell Jones Lanier & Murphy LLP.

This audit represents an independent effort to assess the City's cash-management policies, procedures, and practices as they relate to the General Fund. The report, attached for your review, contains commendations recognizing noteworthy practices of the City's cash-management function and recommendations of how cash-management processes and related controls can be improved and strengthened.

The audit team's work included conducting interviews with key personnel; reviewing financial data; testing investment transactions; evaluating daily investment processes; reviewing cash-flow reports; and testing cash-flow forecasts. Also, benchmark surveys were obtained from other public and private sector entities to identify their cash-management policies and practices.

We enjoyed working with the City employees and appreciate their cooperation with this audit. Also, we look forward to coordinating with the appropriate personnel to implement the various recommendations to strengthen the cash-management practices in the future.

Sincerely,

Lee P. Brown, Mayor

Sylvia R. Garcia, City Controller

xc: Judy Gray Johnson, Chief Deputy City Controller
Albert Haines, Chief Administrative Officer
Gerard Tollett, Chief-of Staff, Mayor's Office
Philip Scheps, Director, Finance and Administration Department



McCONNELL JONES LANIER & MURPHY^{LLP}
CONSULTANTS & BUSINESS ADVISORS

June 29, 2001

The Honorable Lee P. Brown, Mayor
City of Houston
901 Bagby, 3rd Floor
Houston, Texas 77002

The Honorable Sylvia R. Garcia, City Controller
City of Houston
901 Bagby, 8th Floor
Houston, Texas 77002

Dear Mayor and City Controller:

I am pleased to present McConnell Jones Lanier and Murphy's (MJLM) final report of the financial audit of the City of Houston's cash-management practices. This audit was conducted in accordance with Engagement Letters between the City and our firm dated February 27 and April 25, 2001.

The purpose of the audit was to obtain an independent assessment of the City's cash-management policies, procedures, and practices as they relate to the General Fund. We designed various audit procedures, including interviews with key personnel in the offices of the Mayor and City Controller and the Finance and Administration Department to obtain an understanding of cash-management responsibilities, processes, and controls.

Our report contains commendations recognizing noteworthy practices of the City's cash-management function and recommendations on how cash-management processes and related controls can be improved and strengthened.

We are grateful for the cooperation of the management team and staff personnel who assisted us during this audit. We are especially grateful to the Deputy Chief Administrative Officer, and the Chief Deputy City Controller who served as our liaison to the offices of the Mayor and City Controller during the audit.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Odysseus Lanier', written in a cursive style.

Odysseus Lanier
Partner

**CITY OF HOUSTON CASH-MANAGEMENT PRACTICES
FINANCIAL AUDIT**

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1.0 EXECUTIVE SUMMARY

McConnell Jones Lanier & Murphy (MJLM) has completed a financial audit of the cash-management practices of the City of Houston (City). This audit was commissioned and co managed by the Mayor and City Controller in accordance with engagement letters signed February 27, 2001, and April 25, 2001. The purpose of the audit was to obtain an independent assessment of the City's cash-management policies, procedures, and practices as they relate to the General Fund. To fulfill this purpose, the following audit objectives were established:

- Determining whether management has established goals and objectives for cash management and that those goals are adequately communicated through its policies.
- Reviewing management controls to determine whether they are adequate for compliance with policies.
- Comparing the City Controller's Office and the Finance and Administration Department's current practices with best practices of other large municipal governments, as well as commercial industries, and recommending improvements.
- Calculating the City's monthly and annual return on investments and determining whether they meet the City's objectives.
- Evaluating the policies and procedures related to managing the investment of funds, including the daily sweep of cash into the investment sweep account.
- Evaluating the management of the availability of funds with regard to liquidity should investments be required to come available for spending.
- Evaluating policies and procedures related to reconciling cash activity and balances with the bank.
- Evaluating the management of banking services.
- Evaluating the process to monitor the maintenance of pledged collateral and insurance to safeguard the City's cash.
- Evaluating management's cash-forecasting practices for revenues and expenditures for the City's general fund.
- Evaluating policies and procedures for determining the amount and utilization of Tax and Revenue Anticipation Notes and/or the availability of other means to provide for short-term cash-flow needs.
- Evaluating policies and procedures related to cash advances between funds.
- Evaluating policies and procedures related to cash and investment reporting and data management.
- Evaluating policies and procedures related to the amount and funding of unreserved fund balances and cash reserves for the City's general fund.

To achieve these objectives, MJLM conducted interviews with key personnel in the offices of the Mayor and City Controller and the Finance and Administration Department (F&A) to obtain an understanding of cash-management responsibilities, processes, and controls. MJLM also reviewed the City's cash management and investment policies and other data such as cash-flow projections, investment reports, bank reconciliations, audit reports, relevant City ordinances, Tax and Revenue

Anticipation Note Official Statements, bank depository and safekeeping agreements, monthly financial and operations reports, the Comprehensive Annual Financial Report (CAFR), and the adopted budget.

During fiscal year 2001, more than \$4.5 billion in cash passed through the City of Houston's coffers. An estimated \$1.5 billion of this cash passed through the General Fund. The City's budget, which is developed by the Mayor and approved by City Council, establishes the baseline for expected cash expenditures. The City Charter defines the role of the Controller as that of supervising the fiscal affairs of the City. As a result, the Controller's Office is primarily responsible for managing this enormous volume of cash. While F&A and city departments have a lesser role in the cash-management process, they have complete responsibility for expenditure control, which is not covered by this report.

The phrase "Cash Management" can have different meanings as it is practiced by the Controller's Office and F&A. With respect to the Controller's Office, especially the Investment and Debt Management Division (IDMT), cash management can be narrowly defined as "investment and banking operations". IDMT manages investments for all city funds on a commingled basis in an Investment Pool, because it is more efficient to manage one portfolio of billions of dollars than it is to manage hundreds of individual portfolios of much smaller amounts.

The City has one main Investment Pool in which approximately 350 separate city funds contribute money. This Investment Pool comprises approximately 70% of the city's operating investments. The remaining 30% is invested in special single-purpose investment pools, which for the most part are funded by specific bond issues and earmarked for specific construction projects.

A specialized team of professional fixed income managers is responsible for these investments. The Investment Pool is operated like a mutual fund, where each of the City's funds that have cash balances is a separate customer. As each fund receives cash and deposits it in the appropriate bank account, that cash is transferred to one of the City's investment pools and suitable securities are purchased. The fund is buying equity in the pool. As each fund disburses cash by check or wire transfer, the fund sells equity in the pool, and the cash is transferred as needed from the investment bank account to the payroll or vendor payment bank account.

With regard to banking operations, IDMT monitors activity in all bank accounts for the purpose of ensuring all cash is invested efficiently and to ensure that there is sufficient cash in the bank accounts to cover projected check clearings and wire transfers. IDMT buys securities with maturity dates that correspond to the expected cash disbursement needs and does not have to sell securities to fund cash disbursements. These banking operations are conducted without regard to budgeted revenues or expenditures of the City.

Within F&A "cash management" has an entirely different meaning. For these groups, cash management involves the individual funds and ensuring that cash receipts for such items as property taxes, sales taxes and franchise fees are sufficient to meet budgeted cash expenditures, such as payroll, vendor payments, and debt service. Investment and banking decisions are not part of the decision process in determining whether there is enough cash to make payroll or pay vendors. From the individual fund's viewpoint, the process operates much like a money market checking account would, and the fund is paid interest monthly based on the average daily balances. The "behind the scenes" investment of cash is as invisible to budget and fiscal managers as it is to the owner of a money market checking account. In order to make disbursements, the fund must have ownership in the investment pool, much like the person who has a money market checking account must make a

deposit before he or she can write checks on the account. For some city funds, most notably the General Fund, receipts and disbursements do not match up during the year, and the fund must borrow to meet its needs, either internally from another fund that has available, unrestricted cash, (such as the “Any Lawful Purpose” fund of the Water & Sewer System) or externally through the issuance of tax and revenue anticipation notes. Most of the City’s investment pool is owned by funds that are restricted due to bond ordinance requirements and may not be spent for general purposes.

To oversimplify this matter for emphasis, the Controller’s Office is primarily involved with managing the cash the City has, and F&A is primarily involved with ensuring that the City has cash to manage.

Exhibit 1 identifies specific cash-management responsibilities of the Controller, F&A, and city departments and shows that the City Controller is responsible for most cash-management functions. F&A’s cash-management responsibilities include projecting cash-flow needs for issuing Tax and Revenue Anticipation Notes (TRANS) and administering General Fund borrowings from other funds. Departmental cash-management responsibilities are operations driven and transaction based.

**Exhibit 1
Cash-Management Responsibilities**

Function	●Primary Responsibility ○Secondary or Shared Responsibility		
	City Controller	Mayor/ F&A	City Departments
Administer issuance of Tax and Revenue Anticipation Notes	○	●	
Ensure compliance with the City’s Investment Policy	●	○	
Prepare interfund borrowings for City Council’s review and approval		●	
Monitor and maintain system-generated cash-related reports	●	○	
Establish and maintain banking relationships	●	○	
Forecast General Fund revenues and related cash flows	○	●	
Certify availability of funds	●		
Ensure cash receipts are deposited timely		○	●
Ensure that investments mature in time to meet cash requirements	●		
Manage investment of City funds	●		
Reconcile assigned deposit accounts	●		●
Reconcile the City’s bank accounts	●		
Record and clear cash deposits in the financial system		●	●
Prepare cash disbursements for payment	○	○	●
Release cash disbursements for payment	●		

Source: Interviews with City Controller’s Office and F&A staff.

After obtaining an understanding of cash-management responsibilities, practices, policies, procedures, and controls, MJLM designed specific audit procedures for each objective and applied these procedures for the scope period July 1, 1999 through March 31, 2001. These procedures included tests of individual investment transactions, evaluation of daily investment processes, review

and recalculation of investment portfolio returns, review of short-term borrowings, review of cash-flow reports, tests of cash-flow forecasts, examination of reconciliation processes, and performance of other procedures considered necessary to accomplish the audit objectives.

MJLM also designed a benchmarking survey to identify the cash-management policies and practices of other public- and private-sector entities. MJLM obtained survey results from eight separate sources, including five large cities, two large school districts, and one large corporation. Three of the five cities have a strong mayoral form of government similar to Houston; the other two have a city manager. These organizations are summarized in **Exhibit 2**. The survey instruments and MJLM’s tabulation and analysis of survey responses are presented in sections five, six, and seven of this report.

Exhibit 2
Benchmark Survey Organizations

Name	Form of City Government
Cities	
Atlanta, GA	Strong mayor
New York, NY	Strong mayor
Pittsburgh, PA	Strong mayor
San Antonio, TX	City manager
Austin, TX	City manager
School Districts	
Dallas Independent School District	n/a
Houston Independent School District	n/a
Company	
Continental Airlines	n/a

Source: MJLM Summary of Survey Organizations.

As a result of these audit procedures, MJLM identified strengths and weaknesses in the City’s cash-management process. The following pages present a summary of findings, commendations, and recommendations discussed in this report.

FINDING

A viable banking structure is a key component of effective cash management. The City uses a variety of banking services and technology to enhance its cash-management function and to safeguard cash. The City’s banking structure expedites the flow of funds, facilitates transaction reporting and bank reconciliations, and maximizes available funds for investment.

COMMENDATION

The City’s banking structure and the use of various banking services promote effective and efficient cash management.

FINDING

The Investment and Debt Management Division (IDMT) uses effective forecasting techniques to ensure that funds are available to meet the City’s cash requirements. The techniques are employed for all city funds, not just the General Fund. Generally, IDMT buys securities spaced out equally

across time in a process called “laddering the portfolio.” As securities mature, they are reinvested, assuming a normal yield curve, on the longest maturities in the range to take advantage of higher yields.

COMMENDATION

The Investment and Debt Management Division effectively matches investment maturities to debt obligations to ensure adequate liquidity in the City’s investment portfolio.

FINDING

The City’s cash is always invested and earning interest. Moreover, since the City changed depositories in December 1999, IDMT has significantly improved management of the daily sweep of cash into overnight investments.

COMMENDATION

The City’s cash is always invested and earning interest, and the Investment and Debt Management Division has significantly improved the management of cash swept into overnight investments.

FINDING

The bank-reconciliation process has improved since the City changed depositories in December 1999. During fiscal year 1997 through 1999, external auditors reported various weaknesses in the bank-reconciliation process. However, during fiscal 2000, bank reconciliations were not cited as a reportable condition due to improvements such as reducing the number of reconciling items.

COMMENDATION

Improvements in the bank-reconciliation process have significantly reduced the number of reconciling items.

FINDING

The City has policies and procedures governing some, but not all, cash-management functions. Moreover, cash controls and procedures have evolved over the years in a decentralized fashion. An investment policy, procedures governing the day-to-day investment of cash, and an administrative procedure governing citywide cash handling exist. In addition, F&A has a written description of its cash projection practices for the General Fund, and IDMT maintains a list of employee investment and debt job duties. However, no comprehensive policies and procedures governing the cash-management function as a whole have been written.

Recommendation 1:

Develop written, comprehensive policies and procedures for the cash-management function.

FINDING

The General Fund undesignated fund balance is above the required 5 percent minimum level. However, it has declined annually since fiscal 1998. In addition, the City has not established an actual cash reserve for the General Fund. An adequate cash reserve provides funds for emergencies, unforeseen events, and short-term working capital needs and is a key component of effective cash-flow management.

Recommendation 2:

Rebuild the General Fund undesignated fund balance to 8 percent of the adopted budget, and maintain actual cash reserves of at least \$30 million adjusted for inflation.

FINDING

IDMT should periodically review and evaluate investment benchmarks to assess their comparability and to determine if another index more closely matches characteristics of the City's portfolio. IDMT compares the City's investment returns against the returns of two benchmarks: the Lehman Brothers government index, and a Merrill Lynch custom index. The director of IDMT recognizes that the benchmarks do not represent the best comparisons for the City. In fact, the issue was discussed during a 1999 Investment Committee Meeting in which the Lehman Brothers index was described as inappropriate, and the Merrill Lynch index was noted for further review.

Recommendation 3:

Identify and use investment benchmarks with portfolio characteristics similar to the City's portfolio.

FINDING

The City makes monthly investment return benchmark comparisons using annualized monthly returns rather than individual monthly returns. Annualizing monthly returns distorts performance comparisons when there are large interest rate moves in a short period of time and is not recommended by the Association for Investment Management and Research (AIMR), an international organization of investment practitioners and educators. The City does present AIMR compliant monthly returns in order to compare which sectors within the investment portfolio are providing the best returns.

Recommendation 4:

Present monthly investment returns using standards established by the Association for Investment Management and Research.

FINDING

IDMT does not document review and approval on two of the four investment reconciliations it performs. The four reconciliations are designed to balance and reconcile investment activity. The first reconciles daily SunGard activity to J.P. Morgan Chase investment account activity. The second reconciles SunGard monthly activity to the AFMS financial accounting system and to the monthly

J.P. Morgan Chase bank statement. The third reconciles par value, discount/premium, and accrued interest on the SunGard system to the AFMS financial accounting system. Finally, the fourth reconciles the SunGard security listing to the security listing maintained by the safekeeping custodian Bank One.

Recommendation 5:

Document review and approval on all investment reconciliations to acknowledge that they are reviewed and approved by someone other than the preparer.

FINDING

Information in six broker/dealer files needs to be updated. Section 20.0 of the Investment Policy, *“Authorized Broker/Dealers and Financial Institutions”* requires the City Controller to maintain a list of approved broker/dealers and financial institutions that are authorized to provide investment services in Texas. The policy requires an annual review of the financial condition and registrations of authorized broker/dealers and financial institutions and calls for a current audited financial statement to be on file.

Recommendation 6:

Follow up on broker/dealer file audits to ensure that the files are complete and contain current information.

FINDING

Compliance audit results are not reported to the Investment Committee as required by the Investment Policy. Section 21.0 of the Investment Policy requires the results of annual audits of investment controls and adherence to investment policies to be reported to the Investment Committee.

Recommendation 7:

Report the results of annual investment compliance audits to the Investment Committee, and document the committee’s review of the audit report in the minutes.

FINDING

Since City departments began reconciling their own depository bank accounts in January 2000, the number of reconciling items has been reduced significantly. However, departments are not preparing bank reconciliations and clearing open reconciling items within timeframes established by the City Controller’s Financial Reporting Division. In fact, many open items cannot be associated with a specific department.

Recommendation 8:

Enforce bank-reconciliation deadlines, and develop procedures to lower the number of unidentified bank deposits.

FINDING

Consolidated bank reconciliations show an out-of-balance amount that varies from month to month indicating that the reconciliations are being forced to balance. Forcing the bank reconciliation to balance could result in a misstatement of cash and other accounts.

Recommendation 9:

Update the bank-reconciliation out-of-balance amount and resolve future differences as they occur.

FINDING

Although the City has made extensive use of other banking services, it has not maximized the use of electronic funds transfer (EFT) technology. As of April 27, 2001, only 316 of the City's approximately 192,000 vendors were being paid through EFT. In addition, only 69 percent of city employees were paid through direct deposit.

Recommendation 10:

Increase electronic funds transfers for vendor payments, and increase direct-deposit participation among employees.

FINDING

The City Controller and F&A do not coordinate actual historical amounts used in cash-flow forecasts to ensure that the amounts agree. Moreover, cash-flow forecasts are based on report criteria that have not been modified since 1993.

Recommendation 11:

Coordinate Controller and F&A cash forecasts to ensure that actual historical amounts in forecasts agree, and update the program criteria of the CF05 and CF10 reports.

FINDING

Each month and every quarter, IDMT prepares an investment report for the Investment Committee. The quarterly reports are available to the general public on the City's web site. Although the reports comply with provisions of the City's investment policy, they could be enhanced with a brief executive summary of factors affecting portfolio composition, investment strategy, and performance results for the period.

Recommendation 12:

Include an executive summary in investment reports.

FINDING

IDMT does not receive current, accurate aviation construction draw schedules to accurately project liquidity requirements for Series 1998 and 2000 airport bond funds.

Recommendation 13:

Provide updated aviation construction draw schedules to the Investment and Debt Management Division at least semiannually.

FINDING

Franchise contract payment terms are not structured to maximize the City's cash flow because the City receives franchise fees either annually or quarterly, rather than monthly.

Recommendation 14:

Consider renegotiating franchise fee payment terms as franchise contracts are renewed.

2.0 BACKGROUND

The Investment and Debt Management Division of the City Controller's Office is involved in cash-management activities on a daily basis. This division administers the City's investment portfolio and is responsible for monitoring the City's debt and making timely debt service payments. The director of the Investment and Debt Management Division (IDMT) and a staff of seven conduct the day-to-day operations of the division. One financial analyst position became vacant in May 2001. **Exhibit 3** presents IDMT's organization.

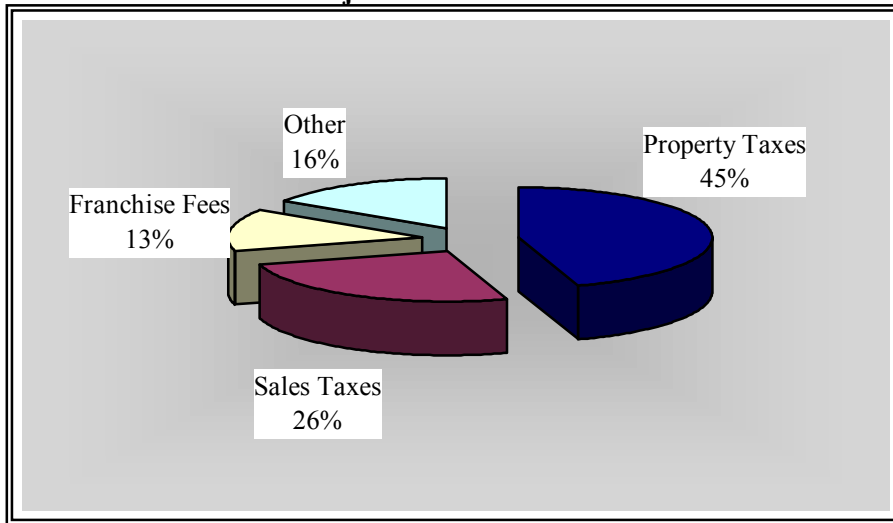
Exhibit 3
Investment and Debt Management Division Organization



Source: Investment and Debt Management Division.

General Fund cash flows can be classified into three broad categories: (1) cash flows from operating activities; (2) cash flows from borrowing activities; and (3) cash flows from investing activities. Property taxes, sales taxes, and franchise fees are the largest sources of cash flows from operating activities. As shown in **Exhibit 4**, revenue from these sources comprise about 84 percent of fiscal 2001 General Fund revenue.

**Exhibit 4
General Fund Revenues
Projected Fiscal 2001**

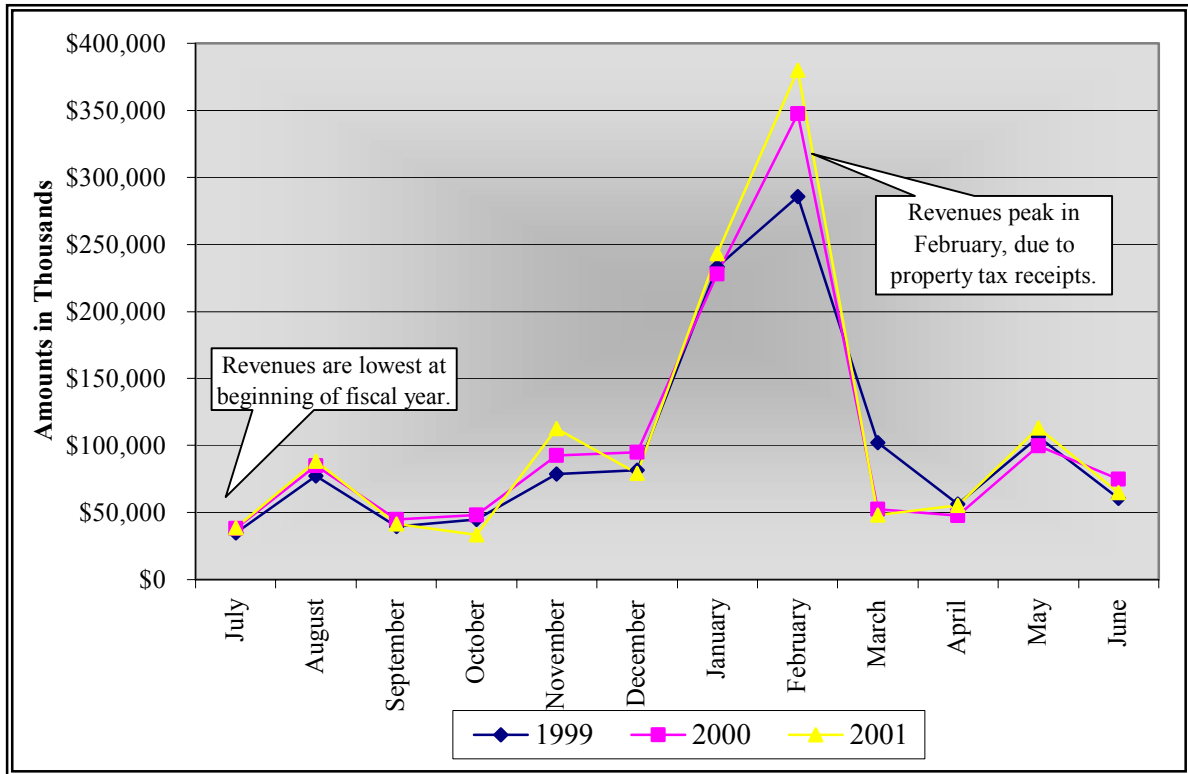


Source: April 2001 Monthly Financial and Operations Report.

Harris County Appraisal District estimates of property values provide the basis for property tax projections. A privately developed projection model provides the basis for sales-tax projections, while franchise fees are contract based. Although revenues cannot be predicted with certainty, the timing of most cash receipts is highly predictable. For example, the City receives the bulk of property taxes in January and February. The Texas State Comptroller remits sales taxes monthly, and franchise fees are received quarterly.

The timing of most disbursements is also highly predictable. Payroll, for example, represents the City's largest expenditure. Civilian employees and classified employees (Fire and Police Departments) are paid on alternating Fridays of each month. This predictability is illustrated in **Exhibit 5**, which shows operating cash revenues received during fiscal years 1999 through 2001. As the exhibit shows, revenues are lowest at the end of the fiscal year and highest in January when property taxes are received.

Exhibit 5
City of Houston General Fund Revenues
Fiscal Years 1999 through 2001

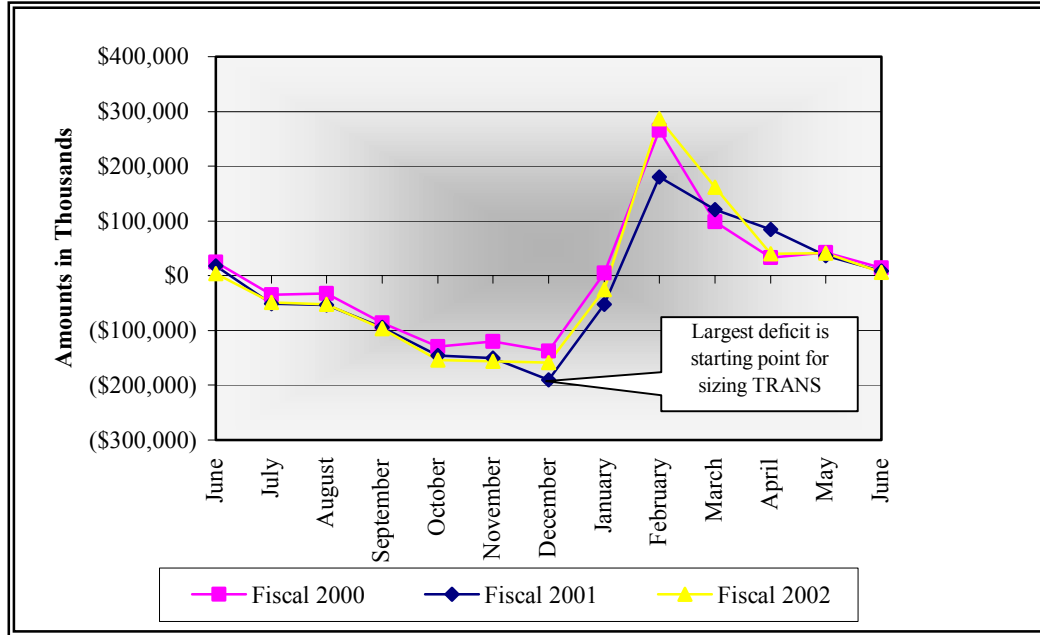


Source: Finance and Administration General Fund Cash-flow Projections, Fiscal 1999 through 2001.

Note: June amounts for each year and May 2001 are city projections; other amounts are actual.

A highly predictable revenue stream enables the City to anticipate and provide for cash shortages. The City provides for these shortages primarily through issuing Tax and Revenue Anticipation Notes (TRANS). TRANS provides a cost-effective and efficient means of “smoothing out” the cash-flow stream, enabling the City to operate. At the beginning of each fiscal year, the City issues TRANS sufficient to fund operations through the first six months of the fiscal year. F&A projects cash flow, without the effect of any borrowing, to determine the amount required to provide for the anticipated General Fund cash deficit. Based on this projection, F&A requests City Council authorization for the TRANS, which includes a provision for a secondary borrowing. Typically, the largest cash deficit, not including TRANS, occurs in December as shown in **Exhibit 6**, which presents TRANS cash forecasts for fiscal years 2000, 2001, and 2002.

Exhibit 6
Fiscal 2002 Cash-flow Forecast Without TRANS



Source: Finance and Administration Department-Debt Management Division.

F&A estimates the size of the TRANS using the following factors:

1. Largest cash deficit occurring during the first six months of the fiscal year (July through December).
2. Internal Revenue Service arbitrage requirements.
3. Amount of funds available in the Any Lawful Purpose Fund (ALP).

Since the TRANS is an estimate, proceeds are often depleted before the end of December. As a result, secondary borrowings may be necessary to bridge the funding gap. Prior to fiscal 2000, the City's practice was to issue a secondary TRANS through private placement around October or November. Instead of issuing a secondary TRANS, the City began borrowing from the ALP fund in fiscal 2000. The City also borrowed from the ALP fund in fiscal years 1999 and 2000 to cover year-end General Fund cash shortages.

Exhibit 7 presents a history of TRANS and interfund borrowing for the General Fund. From fiscal 1990 through fiscal 1999, mid-year borrowings as a percentage of the initial TRANS averaged 20 percent. In fiscal 2000 and 2001, the percentage rose to 34 and 31 percent, respectively. More funds were borrowed during these years to bridge the mid-year funding gap.

**Exhibit 7
History of TRANS and Interfund Borrowing
Fiscal Years 1990 through 2002
(Amounts in Thousands)**

Fiscal Year	Initial TRANS	Mid-year Secondary TRANS	Mid-year Interfund Borrowings	Year-end Interfund Borrowings	Total Borrowing	Percentage of Mid-year to Initial TRANS
1990	\$65,000	\$6,000			\$71,000	9%
1991	\$83,000				\$83,000	0%
1992	\$45,000	\$32,000			\$77,000	71%
1993	\$100,000	\$20,000			\$120,000	20%
1994	\$100,000	\$25,100			\$125,100	25%
1995	\$110,000	\$21,000			\$131,000	19%
1996	\$110,000	\$19,900			\$129,900	18%
1997	\$120,000				\$120,000	0%
1998	\$100,000	\$18,000			\$118,000	18%
1999	\$100,000	\$20,000		\$6,400	\$126,400	20%
2000	\$127,000		\$43,000	\$20,000	\$190,000	34%
2001	\$160,000		\$50,000	*	\$210,000	31%
2002	\$150,000	N/A	N/A	N/A	N/A	N/A

Source: Finance and Administration Department-Debt Management Division.

**In May 2001, City Council authorized ALP borrowings of up to \$20 million.*

The City's strategy of borrowing ALP funds is effective for short-term cash needs of a few weeks or months. It expedites the borrowing process while eliminating private placement costs. However, the strategy would not be effective for long-term borrowing because ALP funds are determined annually and are not guaranteed. Also, City Council has discretion to use these funds for any lawful purpose and could decide to divert their use away from the General Fund. Moreover, borrowing from the ALP long term would result in lost opportunities to earn interest on the funds. This is especially important since, historically, the City has earned more interest on its investments than it has paid on TRANS. For example, during fiscal 1998, 1999, and 2000, the rate paid on TRANS was 3.85, 3.57, and 3.37 percent, respectively, while investment returns over this three-year period averaged 5.78 percent. The rate on the fiscal 2001 TRANS is 4.42 percent, while total investment return through May 2001 is approximately 8.09 percent.

Since the City issues TRANS at the beginning of the fiscal year, cash is abundant during the first few months of the fiscal year and again in January and February when property taxes are received. All cash is always invested in authorized investments. Any cash remaining in bank accounts at the end of the day is automatically swept into an overnight investment.

As of March 31, 2001, the City's investment portfolio consisted of six investment pools, each with a separate objective and funding source. General Fund excess cash is invested through the general pool, which is the largest and consists of all working capital, construction, and debt service funds that are not subject to yield restriction under Internal Revenue Service arbitrage regulations. The City combines the net cash flows of the General Fund and other funds into this pool to take advantage of longer-term, higher-yielding securities without sacrificing safety and liquidity.

The general pool invests in a variety of securities as allowed by the City's investment policy, which governs investment of city funds according to the following objectives, in order of priority:

1. **Safety:** Safety of principal is the primary objective of the City's investment program. Preservation of capital is to be achieved through diversification such that losses on individual securities do not impair the value of the entire portfolio.
2. **Liquidity:** The City's investment portfolio must be sufficiently liquid to allow payment of reasonably anticipated obligations.
3. **Investment Return:** The City's investment portfolio is to be designed to attain the best feasible rate of return commensurate with risk constraints and liquidity requirements. Investment return, although important, is subordinate to safety of principal and liquidity.
4. **Legal Requirements:** The City's investment portfolio is to be designed to meet all legal requirements, including yield restrictions.

As of March 31, 2001, the general investment pool had par and market values of approximately \$2.02 billion and \$2.05 billion, respectively, representing almost 90 percent of the City's total investment portfolio. More than 350 accounting funds participate in the general investment pool. The amount and percentage of each fund's cash in the general investment pool vary daily as cash transactions occur. On March 31, 2001, the General Fund's participation in the pool was approximately 14.7 percent, or almost \$300 million. Also on March 31, 2001, approximately 84 percent of the general investment pool was composed of U.S. treasury and agency securities. The weighted average maturity of the portfolio was 644 days, and the return on investment for the previous 12 months (March 2000 to March 2001) was 9.03 percent. Interest earned on the investment portfolio from July 2000 through May 2001 was \$111.8 million, of which 85 percent, or \$94.6 million consisted of general investment pool earnings.

3.0 COMMENDATIONS

FINDING

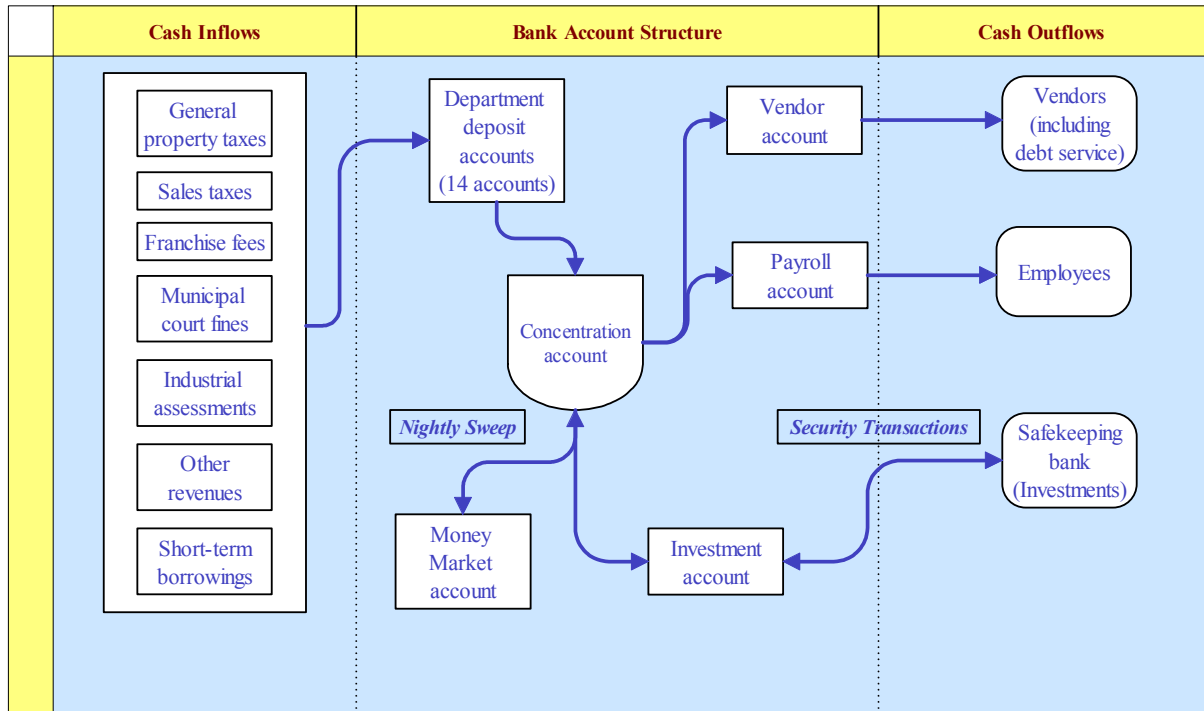
A viable banking structure is a key component of effective cash management. The City's banking structure expedites the flow of funds, facilitates transaction reporting and bank reconciliations, and maximizes available funds for investment. Two banks form the foundation of the City's cash-management infrastructure. J.P. Morgan Chase is the City's main depository and provides a variety of banking services to the City. Bank One facilitates the settlement of investment transactions and is custodian of the City's investment securities.

The City's bank accounts are specifically designed to streamline and expedite receipt, disbursement, and investment of cash. Funds flow into city accounts from a variety of sources and flow out to a variety of recipients. Almost all of this activity flows through an integrated, interrelated account structure, the center of which is a single account known as the concentration account because it is designed to concentrate and direct the flow of funds. Other accounts, known as zero balance accounts (ZBAs), both support and are supported by the concentration account.

ZBAs facilitate collection and identification of funds. The City's vendor and payroll accounts are ZBAs. As disbursements are made from these accounts, sufficient cash is transferred from the concentration account to maintain zero balances in them. Large city departments also maintain zero balance deposit accounts, which are swept nightly into the concentration account. No disbursements are made from departmental deposit accounts other than the daily sweep into the concentration account. The City also maintains a money market account. Excess funds in the concentration account

are swept nightly into the money market account to earn interest overnight. An investment account is used to facilitate investment transactions. Excess funds in the investment account are swept into the concentration account each day. **Exhibit 8** provides an overview of the City’s bank-account structure and related flow of funds.

**Exhibit 8
City of Houston Banking Structure and Flow of Funds**



Source: Investment and Debt Management Division.

The City also uses a variety of banking services and technology to enhance the cash-management function and to safeguard cash. **Exhibit 9** provides a summary of banking services and associated benefits.

**Exhibit 9
Banking Services and Benefits**

Service	Benefit
Concentration and ZBA accounts	Facilitate funds flow and bank reconciliation.
Lockbox services	Expedite and lower cost of processing low-dollar, high-volume payments.
Payroll direct deposit	Lowers risk of lost checks and fraud. Convenience for city employees and payroll department.
Daily balance and detail reporting	Provide real-time cash balance and transaction information for monitoring cash and maximizing investment opportunities.
Positive pay	Protects the City and the bank against check fraud. The bank honors only those disbursements the City approves directly.
Account reconciliation services	Facilitate account reconciliation through matching city and bank disbursement files and producing exception reports of uncleared items.
Overnight investment account	Enables the City to invest idle cash overnight to increase investment returns.
Portfolio tracking services	Provide safekeeping and custodial services for the City’s investment portfolio.

**Exhibit 9 (continued)
Banking Services and Benefits**

Service	Benefit
Securities settlement services	Facilitate the purchase and sale of securities. Use delivery versus payment (DVP) method, which is the safest method of settling security transactions. Every trade is cleared DVP, which ensures that the City’s cash and securities are safeguarded and under its control.
Centralized wire transfer function	Ensures greater control and accounting for wire transfers. The function is centralized in the City Controller’s Office. Built-in controls established by the bank assure safety of the City’s cash. For example, to set up recurring wire transfers, the bank requires a request form signed by the City Controller, or designee, and properly approved wiring instructions from the vendor on the vendor’s letterhead.
Electronic funds transfer	Simplifies vendor payments and direct deposit of employee payroll. Although available, EFT is not used as extensively as it could be and is the subject of a separate finding in this report.
Assigned account executive	Designates at least a bank vice president as a liaison with the City Controller’s Office to ensure and enhance customer satisfaction.
Compensating balance for fees	Allows the City to pay for banking services through interest earned on securities purchased as a compensating balance.
Online stop payment	Enhances and streamlines ability to stop payment on checks.
Canceled check imaging	Enhances ability to research checks, reduces paper media, and conserves storage space by recording large volumes of information in digital format.

Source: Banking Services Agreements and Interviews with IDMT staff.

COMMENDATION

The City’s banking structure and the use of various banking services promote effective and efficient cash management.

FINDING

IDMT uses effective forecasting techniques to ensure that funds are available to meet the City’s cash requirements. The techniques are employed for all city funds, not just the General Fund. Generally, IDMT buys securities spaced out equally across time in a process called “laddering the portfolio.” As securities mature, they are reinvested, assuming a normal yield curve, on the longest maturities in the range to take advantage of higher yields. This strategy is not employed in an inverted curve environment where short-term rates are higher than long-term rates. Laddering ensures that investments are maturing every month to fund cash-flow requirements.

IDMT refines the laddering technique by matching investment maturities, and other known cash inflows, with debt service requirements and other known cash obligations for a period of one year. Beyond one year, IDMT uses a more active investment strategy, which involves trading securities when they are profitable and moving along the yield curve to take advantage of higher interest rates.

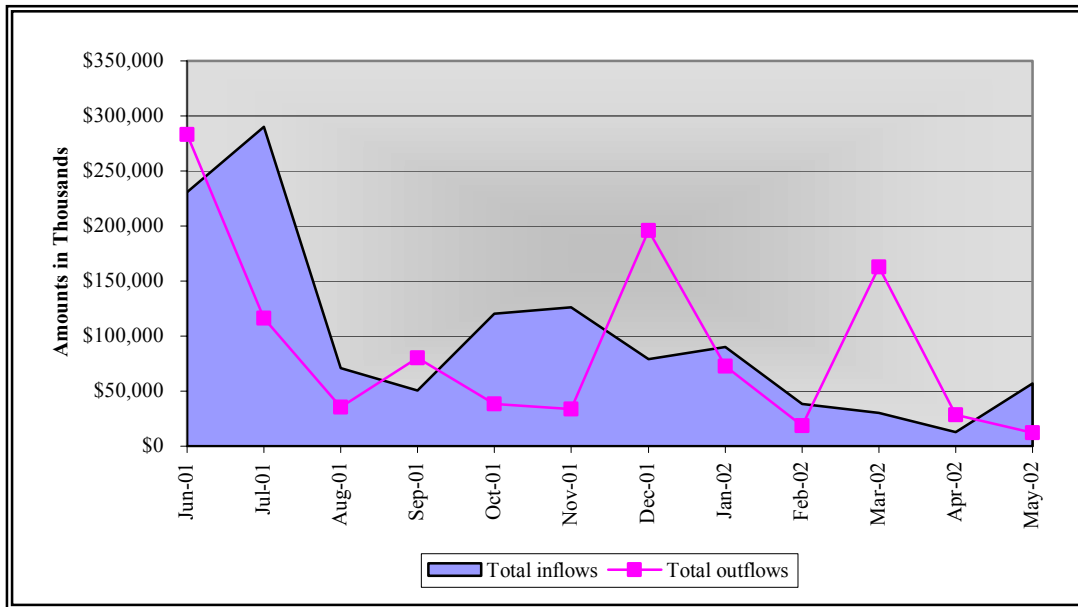
To project cash-flow requirements, IDMT prepares a spreadsheet showing anticipated daily cash inflows and outflows for one year forward. The forecast includes investment maturities, property and sales tax receipts, debt service requirements, payroll requirements, and airport construction draws. It does not include vendor payments, which are difficult to predict and are forecast on a daily basis.

MJLM tested both historical and prospective amounts on the spreadsheet, noting that the spreadsheet is accurate and updated frequently.

IDMT places debt service information from the spreadsheet on a large board in the trading area as a reminder of payment due dates. In addition, the financial analyst responsible for short-term investing posts cash-flow requirements on a color-coded wall calendar as a reminder of future cash needs.

Exhibit 10 presents monthly investment maturities and debt service obligations for fiscal 2002. The exhibit shows that investment maturities are adequately matched to debt obligations as of June 2001. Cash from previous investment maturities, and other cash inflows, will fund the deficits shown in June, September, December, March, and April.

Exhibit 10
Investment Maturities and Debt Obligations Payments
as of June 2001



Source: IDMT's Cash-flow Forecast Schedule of Investment Maturities and Debt Obligations.

COMMENDATION

The Investment and Debt Management Division effectively matches investment maturities to debt obligations to ensure adequate liquidity in the City's investment portfolio.

FINDING

The City's cash is always invested and earning interest. Moreover, since the City changed depositories in December 1999, IDMT has significantly improved management of the daily sweep of cash into overnight investments.

Each day, IDMT invests almost all city cash in commercial paper, treasury notes, governmental agency securities, and other authorized investments. Cash not invested in these vehicles is "swept"

nightly into a money market account so that all city cash is always invested and earning interest. Since investment returns on the overnight money market fund are not as high as on other investments, IDMT’s goal is to leave about \$5 million in the sweep account for disbursements that may clear overnight.

Between December 1999 and March 2001, more than \$3.5 billion was swept into the overnight money market account. This amount represents an average sweep of approximately \$10 million per night—double the target sweep of \$5 million. However, further analysis shows that the sweep has improved significantly in recent months. In fact, the average daily sweep declined 45 percent between the quarters ended March 31, 2000 and March 31, 2001, as shown in **Exhibit 11**.

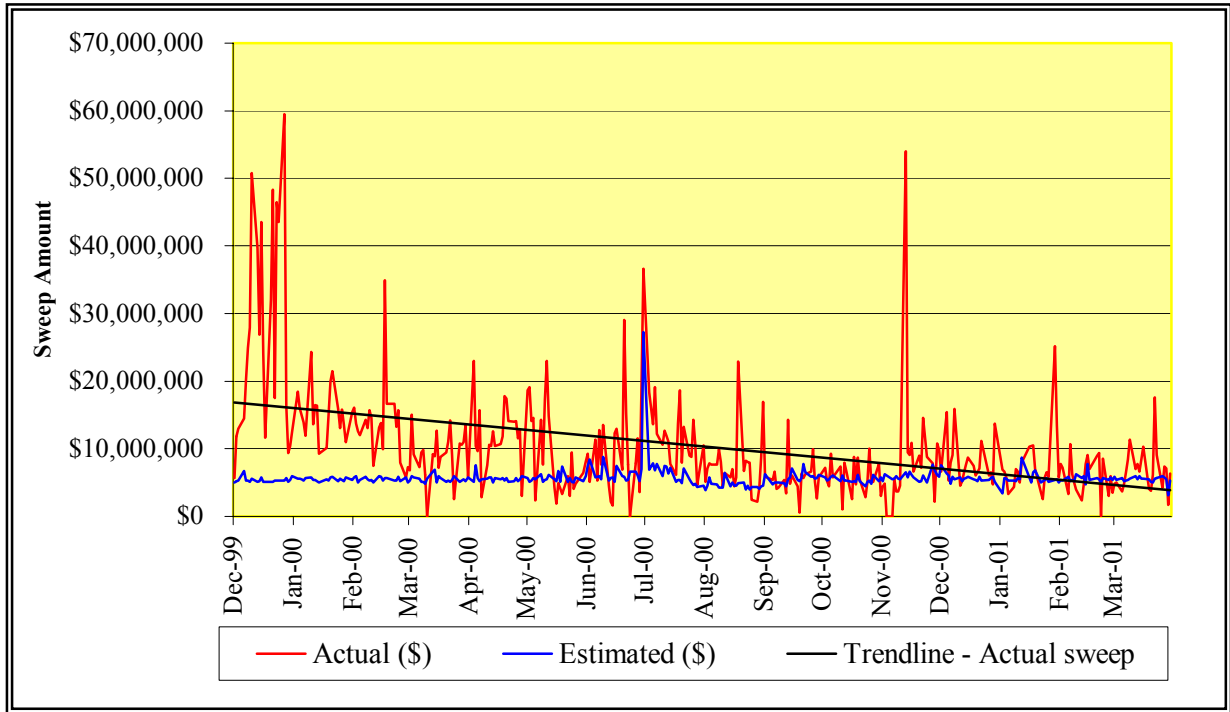
Exhibit 11
Daily Average Sweep per Quarter
March 31, 2000 through March 31, 2001
(Amounts in Millions)

Quarter Ended	Daily Average Sweep
03/31/00	\$12.5
06/30/00	\$10.7
09/30/00	\$8.3
12/31/00	\$7.6
03/31/01	\$6.9
Percentage Change	(45%)

Source: IDMT Daily Sweep Analysis Spreadsheet.

Exhibit 12 compares actual daily sweep balances to estimated daily sweep balances for the period December 1, 1999, through March 31, 2001, and shows progressive improvement in management of the sweep.

**Exhibit 12
Comparison of Actual to Estimated Sweep Balances
December 1, 1999 through March 31, 2001**



Source: IDMT Daily Sweep Analysis Spreadsheet.

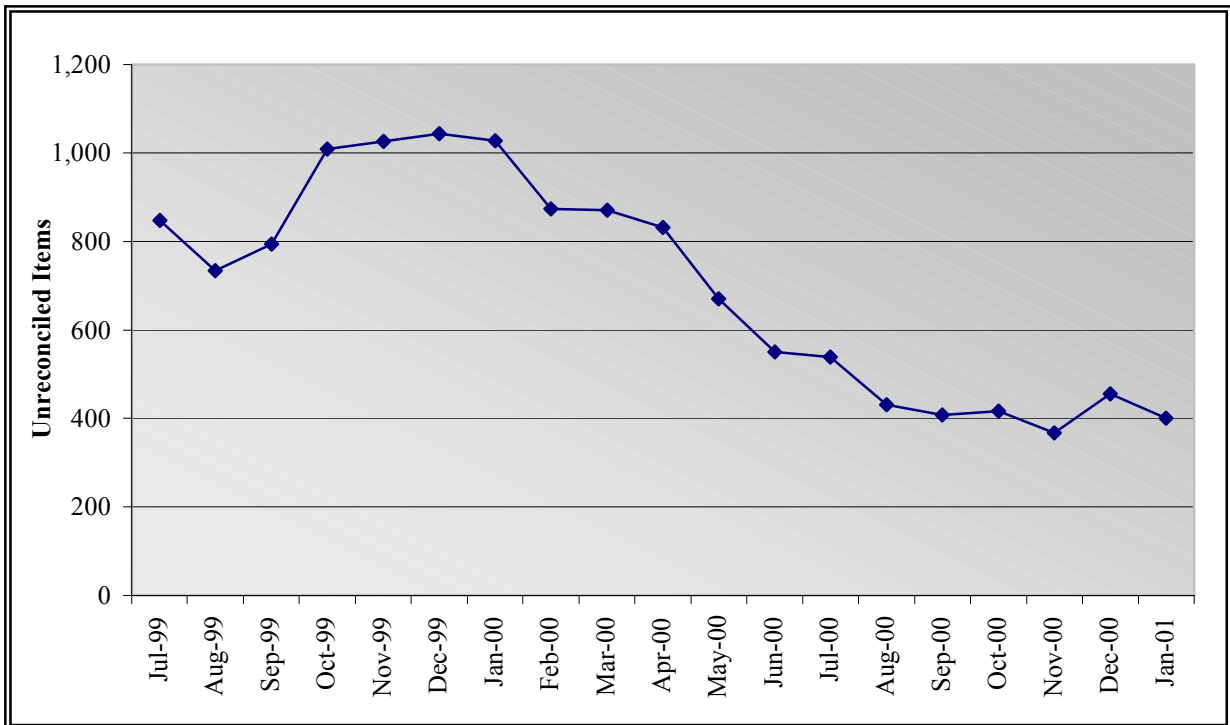
COMMENDATION

The City’s cash is always invested and earning interest, and the Investment and Debt Management Division has significantly improved the management of cash swept into overnight investments.

FINDING

The bank-reconciliation process has improved since the City changed bank depositories in December 1999. During fiscal years 1997 through 1999, external auditors reported various weaknesses in the bank-reconciliation process. However, during fiscal 2000, bank reconciliations were not cited as a reportable condition due to improvements, such as reducing the number of reconciling items. The City accomplished this reduction by establishing separate deposit accounts for large city departments, which are now responsible for reconciling their own bank deposits. From July 1999 through January 2000, an average of 926 items were reconciled per month. From July 2000 through January 2001, average reconciling items fell 53 percent to 431 per month. **Exhibit 13** presents a trend line that reflects this improvement.

Exhibit 13
Trend Line of Bank Reconciling Items
July 1999 through January 2001



Source: Bank Reconciliations.

COMMENDATION

Improvements in the bank-reconciliation process have significantly reduced the number of reconciling items.

4.0 FINDINGS AND RECOMMENDATIONS

FINDING

The City has policies and procedures governing some, but not all, cash-management functions. Moreover, cash controls and procedures have evolved over the years in a decentralized fashion. An investment policy, procedures governing the day-to-day investment of cash, and an administrative procedure governing citywide cash handling exist. In addition, F&A has a written description of its cash projection practices for the General Fund, and IDMT maintains a list of employee investment and debt job duties. However, no comprehensive policies and procedures governing the cash-management function as a whole have been written.

Written policies and procedures describe process activities, assign responsibilities, identify controls, ensure consistency among departments, and promote understanding of how processes are supposed to work. In addition, written policies and procedures ensure continuity during staff turnover and provide

a training tool for new staff. Therefore, comprehensive, written policies and procedures are crucial to an effective cash-management process.

In 1997, the City’s external auditors conducted a compliance review of the Investment Division, as it was called then. Auditors noted that although day-to-day procedures documenting how to record daily investment activity were in place, a comprehensive policies and procedures manual had never existed. At that time the auditors wrote: *“the Division should establish a comprehensive policies and procedures manual that appropriately communicates job responsibilities and levels of authority to achieve proper controls within the Division. This will help ensure that required tasks are performed timely, policies are followed and procedures are adequately performed. Formal, documented policies and procedures could help ensure that responsibility and authority levels are consistently maintained.”*

Since the 1997 review, IDMT has documented investment and debt staff roles and responsibilities. However, the recommendation should be expanded citywide. Comprehensive cash-management policies and procedures would cover additional cash-management activities, such as those presented in **Exhibit 14**. Presently, common practices are associated with these activities; however, the practices have not been consolidated into a comprehensive policies and procedures manual. For example, the City’s practice, at the beginning of each fiscal year, is to borrow operating capital in the form of tax and revenue anticipation notes (TRANS). Although procedures for issuing the notes are familiar to those assigned various TRANS responsibilities, this knowledge has not been collected and codified in a comprehensive cash-management policies and procedures document.

Exhibit 14 presents activities lacking policies and procedures in comprehensive, written form. The exhibit summarizes the current practice and describes key policy and procedure elements for the activity.

Exhibit 14
Cash-Management Activities for Comprehensive Policies and Procedures

Activity	Current Practice	Elements to Include in Policies and Procedures
Cash-flow forecasting	This activity is not coordinated. F&A prepares a cash-flow forecast showing monthly cash projections to determine when the City needs to borrow money to cover General Fund cash shortages. The Controller prepares a similar forecast toward the end of the year to determine whether the General Fund will have enough cash at year-end to pay the City’s obligations. The Investment and Debt Management Division prepares cash forecasts matching investment security maturities, and recurring cash flows, to debt service and construction draw schedules.	<ul style="list-style-type: none"> • Description of the purposes and types of cash-flow forecasts. • Description of the extent to which F&A and the Controller should coordinate cash-flow forecasts and use the same sources of information for actual cash flows. • Discussion of reporting requirements for cash-flow forecasts (F&A’s cash forecast is the only one reported. It is included each year in the TRANS Official Statement and in each monthly financial and operations report.)

Exhibit 14 (continued)
Cash-Management Activities for Comprehensive Policies and Procedures

Activity	Current Practice	Elements to Include in Policies and Procedures
Daily sweep amount	Procedures to calculate the daily sweep are included in the day-to-day investment of cash procedures. However, there is no city policy describing how much the sweep should be. Current practice involves estimating a cushion of approximately \$5 million for outstanding checks. The lower this amount, the higher the amount invested daily in higher earning investments.	<ul style="list-style-type: none"> • Establishment of an official sweep target of the existing \$5 million amount or less. • Definition of responsibilities for information that directly affects the sweep. For example, city departments that monitor franchise fees should be given responsibility for notifying IDMT when a large deposit will be made. Presently, IDMT relies on historical deposit information.
Bank reconciliation	<p>Written procedures describing the bank-reconciliation process are minimal and inadequate. They do not describe all aspects of the process and would not be useful in training an individual who was given responsibility for reconciling the City’s bank accounts.</p> <p>In 1998, external auditors conducted a bank-reconciliation process review. They recommended policies and procedures designed to maximize use of electronic data, increase departmental responsibility over the accuracy of financial information, and use the bank reconciliation as a tool to identify problem areas or control weaknesses. Many recommendations in the report were implemented, but the associated policies and procedures were never codified. The City has changed depositories since the report was issued.</p>	<ul style="list-style-type: none"> • Policy and procedure recommendations from the 1998 bank-reconciliation process review. These include reconciliation responsibilities, accounting practices, purged items, and various reconciliation steps. • Description of the nature of various bank accounts, their purposes, and the roles they play in the overall reconciliation. For example, zero balance accounts have no bank balance at month end because all amounts are swept into the main concentration account. However, activity in these accounts must be reviewed for outstanding items. • Policies, procedures, and timeframes for writing off out-of-balance amounts and old outstanding items such as uncleared checks that must be escheated to the State of Texas.
Investment portfolio reconciliations	IDMT reconciles the portfolio management system (SunGard) to the City’s AFMS accounting system, the investment bank account at J.P. Morgan Chase, and the safekeeping bank’s (Bank One) securities inventory report. The reconciliation process is written and well defined.	<ul style="list-style-type: none"> • Policies and procedures regarding responsibilities for performing portfolio reconciliations. Since written policies already exist, they could be incorporated by reference. • Policies and procedures regarding reconciliation review and approval.

Exhibit 14 (continued)
Cash-Management Activities for Comprehensive Policies and Procedures

Activity	Current Practice	Elements to Include in Policies and Procedures
Reconciliation of participant's equity in investment pools.	The AFMS system generates daily reports of participant's equity in the investment pools by fund. There are no written procedures governing responsibility for reconciling these reports, which had been out of balance for months until they were corrected in June 2001.	<ul style="list-style-type: none"> • Policies and procedures regarding responsibilities for reconciling participant equity to the total investment pool. • Procedures related to researching participant equity out-of-balance amounts. • Procedures related to the timing and frequency of participant equity reconciliations. For example, although the reports are generated daily, reconciliations could be done daily or less frequently, such as every few days.
Banking services	The depository agreement describes banking services available through the City's depository. An administrative assistant in IDMT coordinates banking services such as wire transfers, positive pay, and EFT payments.	<ul style="list-style-type: none"> • Policies regarding which banking services will be used. • Policies and procedures for establishing new accounts or banking relationships. • Policies regarding how often an RFP will be issued for main depository services. • Policies regarding subcontracting banking services to Minority Women-owned Business Enterprises (MWBE).
Borrowing for short-term cash-flow needs	TRANS represents the largest borrowing for working capital needs. Interfund borrowings are a minor source of short-term cash.	<ul style="list-style-type: none"> • Description of the TRANS sizing process. • Identification of key TRANS roles and responsibilities. • Identification of internal sources of short-term borrowing such as the Any Lawful Purpose Fund, the Workers' Compensation Fund, and the Health Care Fund. • Policies and procedures governing interfund borrowing such as borrowing limits, repayment terms, and interest rate.

**Exhibit 14 (continued)
Cash-Management Activities for Comprehensive Policies and Procedures**

Activity	Current Practice	Elements to Include in Policies and Procedures
Electronic funds transfer	All major sources of income such as property taxes, sales taxes, and most franchise fees are received via ACH wire. Direct deposit is available to employees as well as to vendors.	<ul style="list-style-type: none"> • Description of the benefits of EFT and EFT applications available to the City. • Identification of strategies to increase use of EFT among vendors and employees. • Identification of EFT strategies for other revenue sources, such as ambulance fees and industrial district assessments. • Description of EFT controls and safeguards such as proper authorizations, dual controls, access controls, call-back procedures, confirmation procedures, passwords, and dollar limits.
Lockbox services	Ambulance fees are the only major general fund revenues collected through a lockbox. Municipal court fees, while suitable for lockbox collection, are not collected through a lockbox.	<ul style="list-style-type: none"> • Identification of opportunities to increase the use of lockbox services. • Policies and procedures regarding the relationship between the City and the lockbox processor. • Policies and procedures regarding turnaround time, disposition of documents, treatment of exceptions, and error tolerance. • Description of technical requirements for lockbox services, for example, exchange of hard-copy records from the lockbox processor or computer-to-computer data exchange.
Cash and undesignated fund balance reserves	The City has reserve requirements for undesignated general fund balance, but there are no provisions for an actual cash reserve.	<ul style="list-style-type: none"> • Identification of undesignated fund balance reserve requirements. • Establishment of minimum cash reserves used to fund mid and end-of-year cash shortages. • Policies and procedures governing the source and minimum funding levels for cash reserves. • Policies and procedures governing authorization to use cash reserves.

Source: MJLM interview notes and work papers.

In a search for best practices, MJLM learned that the State of North Carolina has a comprehensive cash-management policy that requires all agencies, institutions, departments, and other state entities to develop techniques and procedures for the receipt, deposit, disbursement, and investment of cash. The policy sets forth responsibilities for development and implementation of the state’s cash-management policy. Each state entity is responsible for preparing a cash-management plan that meets Statewide Plan requirements and each entity’s unique cash-management needs. North Carolina’s cash-management policy includes provisions for:

- Receipt and disbursement of cash.
- General Fund cash-flow projections.
- Bank-reconciliation procedures.
- Consideration of new cash-management technologies and procedures.
- Investment of idle cash balances and apportionment of interest earnings.
- Facilitating the use of electronic funds transfer.
- Employing proven cash-management techniques, such as wire transfers, lockboxes, cash concentration accounts, and remittance processing equipment.
- Delegation of disbursing authorities.
- Controls over disbursements, such as timing large payments and keeping stock levels as low as possible to minimize cash investments in inventories.

Recommendation 1:

Develop written, comprehensive policies and procedures for the cash-management function.

The City should review its cash-management activities and develop a comprehensive policies and procedures document for the cash-management function. Cash-management practices should be reviewed, consolidated, and incorporated into the manual. Existing policies and procedures such as the Investment Policy and the cash handling administrative procedure should be incorporated by reference or included as a section of the manual.

IMPLEMENTATION STRATEGIES AND TIMELINE

- | | |
|--|-------------------------------|
| 1. The City Controller and the director of F&A organize a cash-management policy task force consisting of representatives from their respective areas. | August 2001 |
| 2. The City Controller and the director of F&A instruct the task force to develop comprehensive cash-management policies and procedures. | August 2001 |
| 3. The task force meets to organize and assign task responsibilities. | August 2001 |
| 4. The task force identifies cash-management activities, functions, and processes within the City. | September and October 2001 |
| 5. The task force obtains examples of cash-management policies and procedures from other organizations. | October 2001 |
| 6. The task force drafts comprehensive cash-management policies and procedures. | October through December 2001 |

- | | |
|---|--------------------------|
| 7. The Controller and the director of F&A review and approve the cash-management policies and procedures manual. | January 2002 |
| 8. The Controller and the director of F&A ensure that the cash-management policies and procedures manual is continuously updated. | January 2002 and ongoing |

FINDING

The General Fund undesignated fund balance is above the required 5 percent minimum level. However, it has declined annually since fiscal 1998. In addition, the City has not established an actual cash reserve for the General Fund. An adequate cash reserve provides funds for emergencies, unforeseen events, and short-term working capital needs and is a key component of effective cash-flow management.

City Council passed two ordinances designed to establish General Fund reserves. The first requires the General Fund undesignated fund balance to be a minimum of 5 percent of total expenses less debt service. At the end of fiscal 2000, the General Fund undesignated fund balance exceeded this requirement by \$17.5 million.

The second ordinance provides for “excess funds” for nonrecurring expenses. This ordinance defines “excess funds” as the difference between the General Fund undesignated fund balance and 7.5 percent of General Fund expenses less debt service and operating transfers. Use of these funds requires City Council approval. At the end of fiscal 2000, the amount of “excess funds” was zero.

These ordinances do not distinguish between fund balance reserves and actual cash reserves. This distinction is important because fund balance reserves may not represent actual cash available. Fund balance includes transactions, which, by definition, do not involve cash. These transactions represent revenues that have not been received and expenditures that have not been paid. In contrast, cash reserves represent actual cash on hand that is available for use, unless restricted for a particular purpose.

Usually, fund balance is greater than actual cash on hand available for use. For example, at the end of fiscal 1996, the percentage of available cash to undesignated fund balance was 29 percent. After rising to 60 percent in fiscal 1998, the percentage dropped to 25 percent by the end of fiscal 2000, as shown in **Exhibit 15**.

Exhibit 15
Percentage of Available Cash to Undesignated Fund Balance
Fiscal Years 1996 through 2000
(Amounts in Thousands)

Description	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Available cash & investments	\$19,916	\$41,229	\$64,018	\$29,147	\$17,959
Undesignated fund balance	\$69,729	\$84,105	\$106,856	\$80,408	\$70,668
Available cash to fund balance	29%	49%	60%	36%	25%

Source: Controller’s reconciliation of available cash to fund balance, CAFRs, and TRANS Official Statements.

Between fiscal 1996 and 1998, the General Fund undesignated fund balance grew an average of 24 percent annually. After reaching a high of almost \$107 million at the end of fiscal 1998, fund balance

fell 34 percent to approximately \$71 million by the end of fiscal 2000. Fund balance at the end of fiscal 2000 represented 5 percent of the adopted budget compared to 9 percent at the end of fiscal 1998. **Exhibit 16** presents the General Fund undesignated fund balance as a percent of the adopted General Fund budget for fiscal years 1996 through 2000.

Exhibit 16
Undesignated Fund Balance as a Percentage of General Fund Adopted Budget
Fiscal Years 1995 through 2001
(Amounts in Thousands)

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Undesignated fund balance	\$69,729	\$84,105	\$106,856	\$80,408	\$70,668
Adopted General Fund Budget	\$1,025,102	\$1,083,041	\$1,160,449	\$1,249,210	\$1,326,606
Percent fund balance	7%	8%	9%	6%	5%

Source: City of Houston Adopted Budgets and Comprehensive Annual Financial Statements.

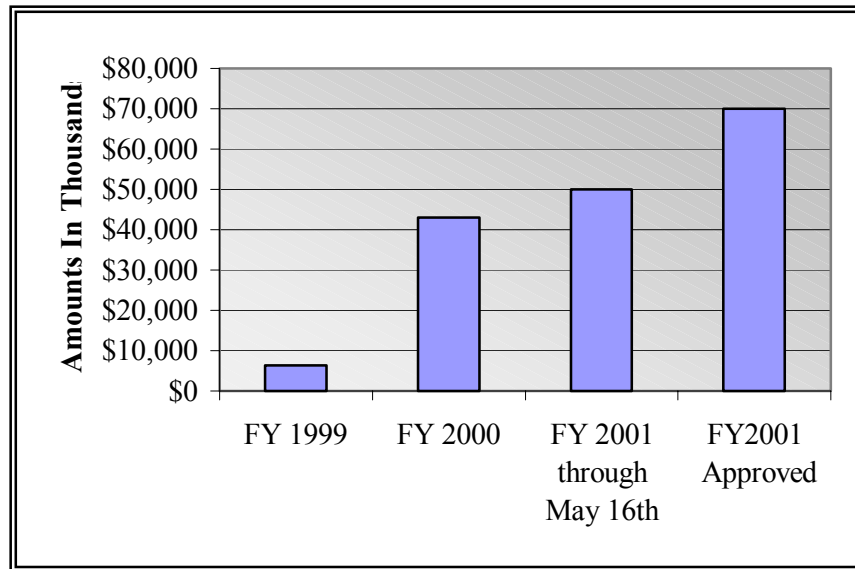
Depletion of the undesignated fund balance over the past two years, coupled with the absence of actual cash reserves, has resulted in the General Fund borrowing from other funds on a short-term basis to meet year-end cash requirements. These funds include the Any Lawful Purpose (ALP) fund, the Health Benefits fund, the Workers' Compensation fund, and the nonrecurring fund. Interfund borrowings increased from \$6.4 million during fiscal 1999 to \$63 million during fiscal 2000. Fiscal 2001 interfund borrowings were \$50 million through May 16, 2001, consisting of the following components:

<u>Fund</u>	<u>Amount</u>
Any Lawful Purpose	\$40,000,000
Health Benefits and Workers' Compensation	\$9,000,000
Nonrecurring Fund	\$1,000,000
Total	<u>\$50,000,000</u>

In early May 2001, City Council approved additional borrowing of up to \$20 million from the Any Lawful Purpose Fund to provide for year-end cash-flow needs if required. Accordingly, fiscal 2001 interfund borrowings could be as high as \$70 million by year end. As of June 25, 2001, none of the \$20 million had been borrowed.

Exhibit 17 presents interfund borrowings from fiscal years 1999 through 2001. According to information provided by F&A and the City Controller, there were no interfund borrowings prior to fiscal 1999.

**Exhibit 17
Trend of Interfund Borrowings
Fiscal Years 1999 through 2001**



Source: Finance and Administration Interfund Borrowing History Schedule.

Recommendation 2:

Rebuild the General Fund undesignated fund balance to 8 percent of the adopted budget, and maintain actual cash reserves of at least \$30 million adjusted for inflation.

General Fund cash deficits experienced over the past two fiscal years did not occur in prior years because fund balance and cash reserves were adequate enough to prevent cash deficits. To avoid future General Fund cash deficits, the City should, over time, rebuild fund balance and establish an actual cash reserve of at least \$30 million.

In 1998, undesignated fund balance was 9 percent of the adopted budget (**Exhibit 16**). MJLM compared peer city undesignated fund balances to their adopted budgets noting that peer percentages range from 1 to 11 percent, as shown in **Exhibit 18**. Figures are based on fiscal 2000 amounts.

**Exhibit 18
Undesignated Fund Balance to Adopted Budget
(Amounts in Thousands)**

City	2000 Undesignated Fund Balance	2000 Adopted Budget	Percentage
New York	\$392,985	\$34,894,419	1%
Austin	\$14,969	\$333,199	4%
Houston	\$70,668	\$1,326,606	5%
San Diego	\$29,536	\$615,183	5%
San Antonio	\$38,800	\$530,584	7%
Philadelphia	\$295,100	\$2,716,562	11%

Source: Peer City Comprehensive Annual Financial Statements and Budgets for Fiscal 2000.

Establishing amounts for undesignated fund balances and cash reserves is a matter of public policy. Assuming the City established a policy to rebuild fund balance to 8 percent of the adopted General Fund budget, approximately \$37 million must be added to fund balance, based upon the fiscal 2001 adopted budget. This figure was determined as follows—amounts are in thousands:

Fiscal 2001 Adopted Budget	\$1,346,341
Target Rate	8%
Target Fund Balance	\$107,707
General Fund Balance at 6/30/2000	\$70,668
Difference	\$37,039

Based on actual fiscal 2000 General Fund expenditures, a \$30 million cash reserve is approximately one week’s expenditures or one payroll for both municipal and classified employees. Accordingly, at least \$30 million of the \$37 million rebuilt fund balance should consist of actual cash reserves. This amount should be accumulated over a three-year period and adjusted periodically for inflation.

To accomplish these goals, the City should devise strategies designed to enhance revenues and reduce expenditures. For example, the City should enforce an existing ordinance requiring fee studies to be conducted every year. These studies are designed to ensure that the City recovers the full cost of providing various services. In addition, City Council should authorize a one-time transfer from the Any Lawful Purpose Fund to the General Fund. City Council has the authority to appropriate these funds for any lawful purpose. Presently, the General Fund is required to repay borrowings from this fund. However, there is no legal requirement to do so. City Council should consider waiving this requirement to help rebuild the fund balance and establish a cash reserve of at least \$30 million.

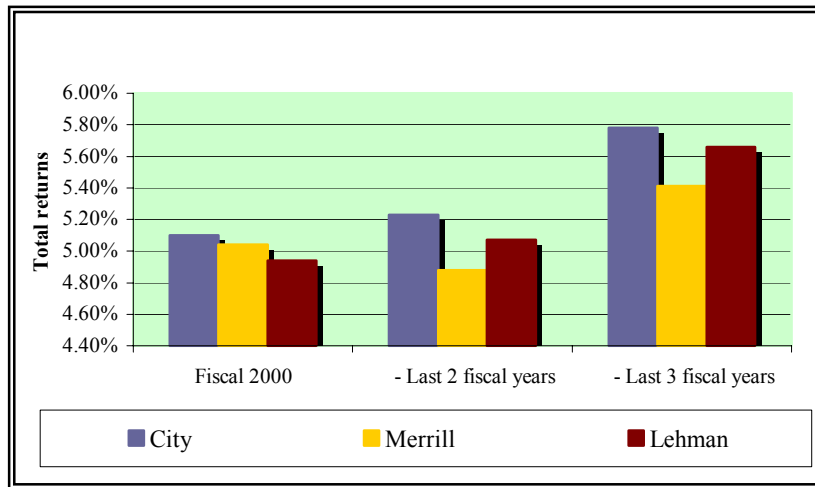
IMPLEMENTATION STRATEGIES AND TIMELINE

1. The Mayor instructs the director of F&A to develop a three-year strategy to rebuild the General Fund undesignated fund balance to 8 percent of budgeted expenditures and to establish a cash reserve of at least \$30 million. During Fiscal 2003 Budget Cycle
2. The director of F&A develops a strategy designed to enhance revenues while reducing expenditures. During Fiscal 2003 Budget Cycle
3. The director of F&A issues a request for council action to waive the requirement to repay the Any Lawful Purpose Fund. August 2001
4. The director of F&A issues a request for council action for a one-time transfer from the ALP Fund to the General Fund to help rebuild the fund balance and establish a cash reserve. During Fiscal 2003 Budget Cycle
5. City council authorizes a one-time transfer from the ALP fund to the General Fund to help rebuild the fund balance and establish a cash reserve. During Fiscal 2003 Budget Cycle
6. The director of F&A monitors and updates the three-year strategy to ensure that the fund balance and cash reserves are not depleted below targeted amounts. August 2002 and ongoing

FINDING

IDMT should periodically review and evaluate investment benchmarks to assess their comparability and to determine if another index more closely matches characteristics of the City’s portfolio. IDMT compares the City’s investment returns against the returns of two benchmarks: the Lehman Brothers government index, and a Merrill Lynch custom index. **Exhibit 19** presents historical investment returns for pool 960 and shows that the City has outperformed both benchmarks over the past three fiscal years.

**Exhibit 19
Comparison of Investment Returns**



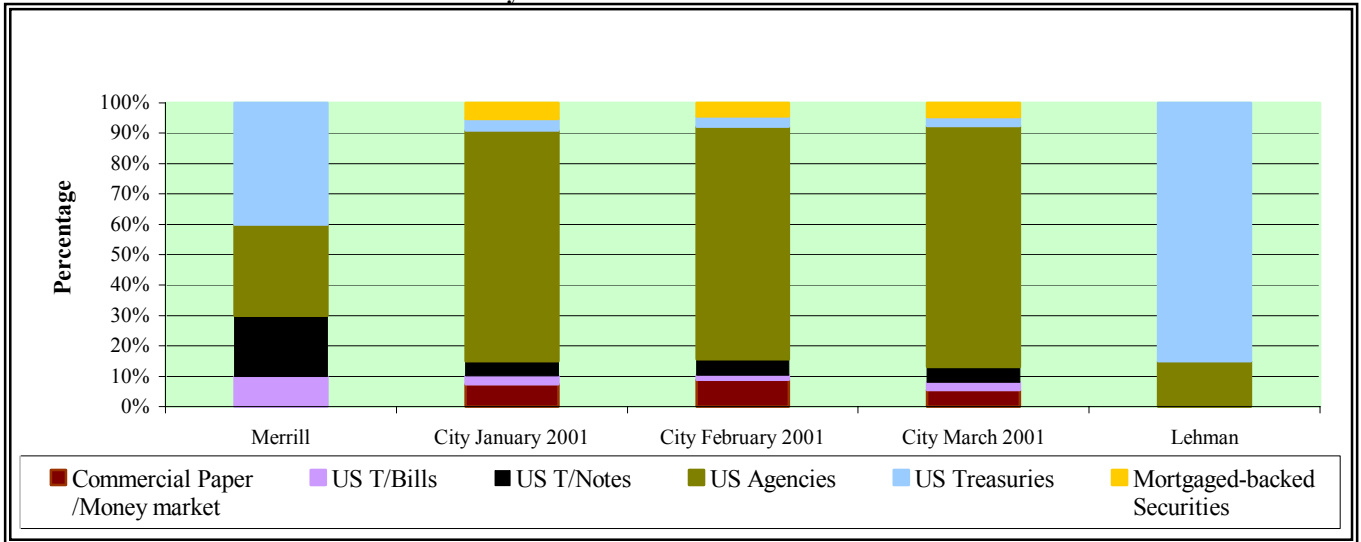
Source: June 2000 Investment Report.

These benchmarks do not represent the best comparisons because certain characteristics of their portfolio do not match the City’s portfolio. Three characteristics must be considered when comparing investment portfolios: (1) composition; (2) maturity; and (3) duration. Composition refers to the types of securities in a portfolio. Different securities respond differently to market conditions and have varying levels of risk and return. Maturity refers to the date on which a security’s principal is repaid to the investor and interest payments cease. The longer a portfolio’s maturity, the more exposed it is to market risk. As interest rates rise, the value of the portfolio will fall. Duration is a measure of a portfolio’s sensitivity to changes in interest rates. The higher the duration, the more sensitive the portfolio will be to changes in interest rates. Duration measures the change in value of a portfolio given a 1 percent change in interest rates. For example, the value of a portfolio with a duration of 1.5 will fall about 1.5 percent if interest rates rise by 1 percent.

Comparison of the City’s portfolio characteristics to those of the benchmarks shows wide differences with the exception of Merrill Lynch’s duration. For example, the Lehman Brothers portfolio is 15 percent agency securities compared to almost 80 percent for the City. Treasury securities comprise 85 percent of the Lehman Brothers portfolio while comprising only about 11 percent of the City’s portfolio (January through March 2001 average). Moreover, the Lehman Brothers portfolio has no securities with maturities less than one year or more than three years. More than half of the City’s portfolio matures in less than one year and about 16 percent matures in more than three years. Finally, the Lehman Brothers duration of 1.68 is higher than the City’s duration, which has averaged 1.38 over the past three fiscal years.

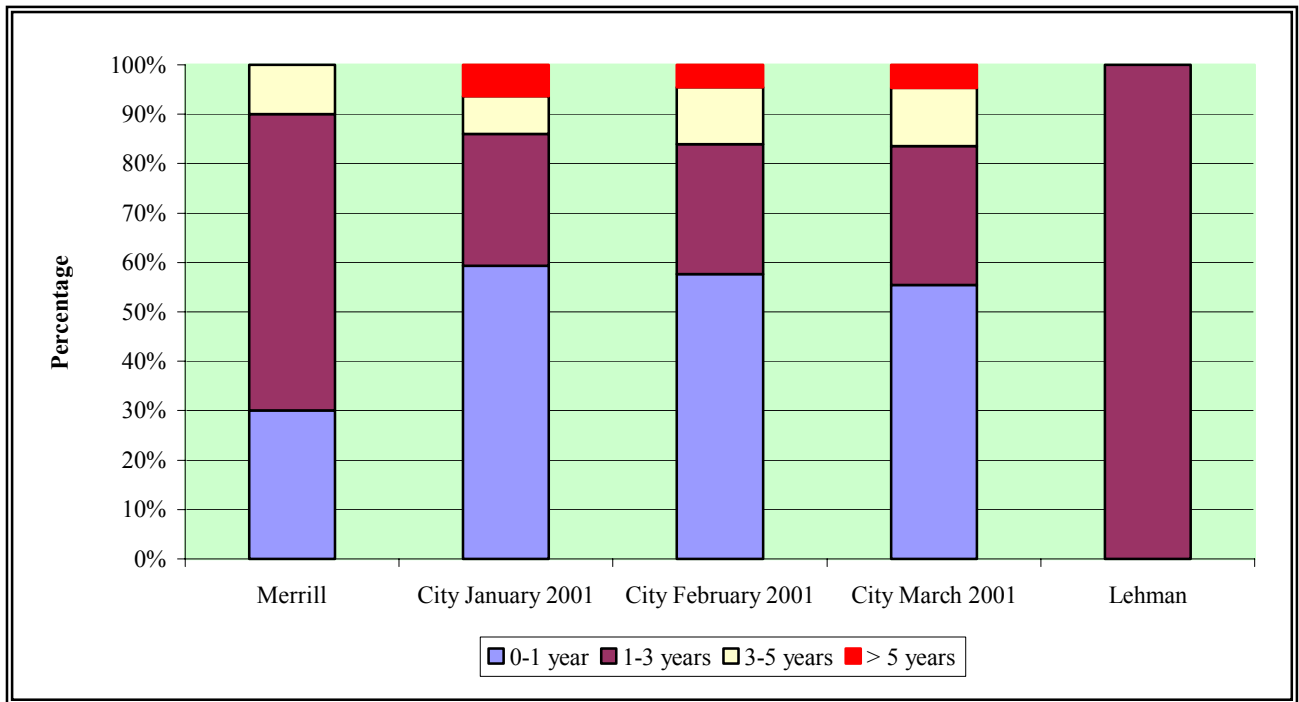
Exhibits 20, 21, and 22 compare the composition, maturity, and duration of the City’s portfolio to that of the benchmarks. Benchmark portfolio characteristics have remained stable over the years. Since characteristics of the City’s portfolio change more frequently, the City’s most recent three months were used to compare portfolio composition and maturity.

**Exhibit 20
Comparison of Portfolio Composition
City of Houston and Benchmarks**



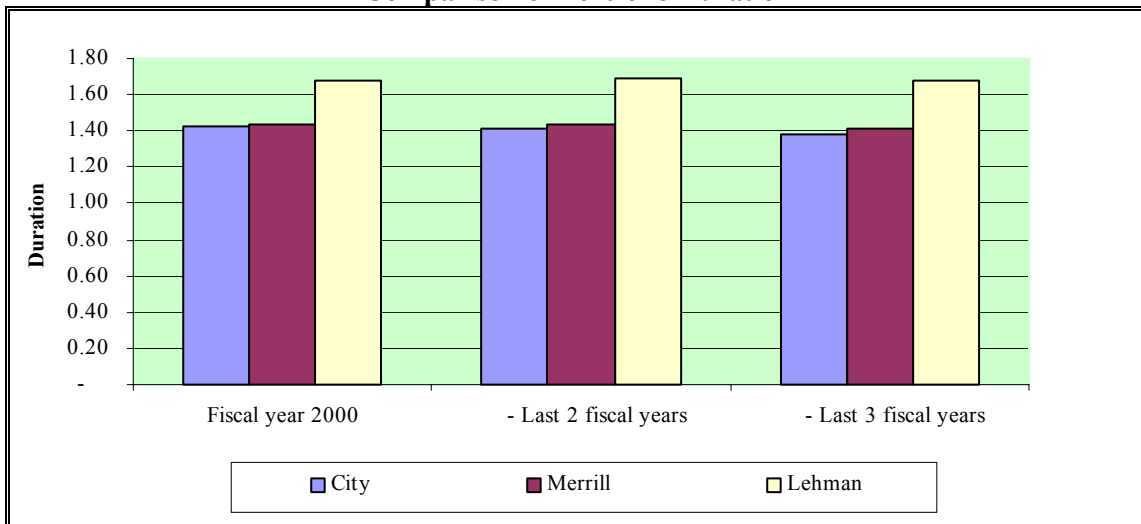
Source: City of Houston Investment Reports.

Exhibit 21
Comparison of Portfolio Maturity
City of Houston and Benchmarks



Source: City of Houston Investment Reports.

Exhibit 22
Comparison of Portfolio Duration



City of Houston and Benchmarks

Source: City of Houston Investment Reports.

The director of IDMT recognizes that the benchmarks do not represent the best comparisons for the City. In fact, the issue was discussed during a 1999 Investment Committee Meeting in which the Lehman Brothers index was described as inappropriate, and the Merrill Lynch index was noted for further review.

Recommendation 3:

Identify and use investment benchmarks with portfolio characteristics similar to the City's portfolio.

Investment return, although important, is subordinate to safety of principal and liquidity. Still, IDMT should benchmark investment returns against portfolios with similar characteristics. Identifying these benchmarks requires special knowledge and skill as well as access to securities information. While an exact fit is not likely to be found, IDMT should be able to identify portfolios that are more comparable than those currently being used. IDMT should also develop a method of continuously reviewing and updating the benchmarks since the characteristics of the City's portfolio may change over time due to liquidity, diversification, or other considerations.

MJLM designed a model portfolio that IDMT could use as a starting point. MJLM developed the model by averaging characteristics of the City's portfolio over the period January through March 2001. The model is presented in **Exhibit 23**.

**Exhibit 23
Portfolio Benchmark Model
Based on Average Portfolio Characteristics for Three Months Ended March 31, 2001**

Description	Less than one year	1-3 years	3-5 years	More than five years	Total Composition
Commercial Paper/Money Market/T-bills	10%				10%
Treasury notes	5%				5%
Agency notes & discounts	40%	25%	10%		75%
US Treasuries		5%			5%
Mortgage-backed securities				5%	5%
Maturities Mix	55%	30%	10%	5%	100%
Portfolio Duration-Three months ended March 31, 2001					1.35

Source: City of Houston Investment Reports-January through March 2001.

IMPLEMENTATION STRATEGIES AND TIMELINE

1. The director of IDMT places revision of investment benchmarks on the Investment Committee agenda for consideration and approval. August 2001
2. The Investment Committee approves revision of the investment benchmarks. August 2001
3. The Investment Committee instructs the portfolio manager to review and, if necessary, revise the portfolio benchmark model suggested by MJLM. August 2001

- | | |
|---|---------------|
| 4. The Investment Committee instructs the portfolio manager to locate or construct a benchmark with characteristics similar to those of the City’s portfolio. | August 2001 |
| 5. The Investment Committee instructs the portfolio manager to develop a methodology for reviewing and updating the benchmarks when necessary. | August 2001 |
| 6. The Investment Committee reviews and approves the recommended benchmarks and the methodology for reviewing and updating the benchmarks. | November 2001 |
| 7. The director of IDMT instructs the financial analyst II to begin using the new benchmarks in monthly investment reports. | November 2001 |

FINDING

The City makes monthly investment return benchmark comparisons using annualized monthly returns rather than individual monthly returns. Annualizing monthly returns distorts performance comparisons when there are large interest rate moves in a short period of time and is not recommended by the Association for Investment Management and Research (AIMR), an international organization of investment practitioners and educators. AIMR provides educational opportunities to investment practitioners and establishes professional investment standards and ethics. More than 49,000 AIMR members are employed as securities analysts, portfolio managers, strategists, consultants, educators, and other investment specialists.

The City does present AIMR compliant monthly returns in order to compare which sectors within the investment portfolio are providing the best returns.

Exhibit 24 compares the City’s monthly investment returns for pool 960 for the period July 2000 through April 2001 to monthly returns as they would have been reported under AIMR standards.

**Exhibit 24
Pool 960 Investment Returns
July 2000 through April 2001**

Month	Annualized Returns as Reported	AIMR Monthly Returns
Jul-00	7.57%	0.61%
Aug-00	10.01%	0.80%
Sep-00	10.07%	0.80%
Oct-00	7.19%	0.58%
Nov-00	10.52%	0.84%
Dec-00	13.41%	1.05%
Jan-01	12.61%	1.00%
Feb-01	8.42%	0.68%
Mar-01	7.12%	0.58%
Apr-01	5.36%	0.44%

Source: Monthly Investment Reports.

Recommendation 4:

Present monthly investment returns using standards established by the Association for Investment Management and Research.

Monthly investment returns should not be annualized when making comparisons with investment benchmarks. The City should make benchmark comparisons using standards established by AIMR. In addition, the investment report should explain the basis upon which benchmark comparisons are made including a discussion of AIMR standards for calculation and presentation of investment returns.

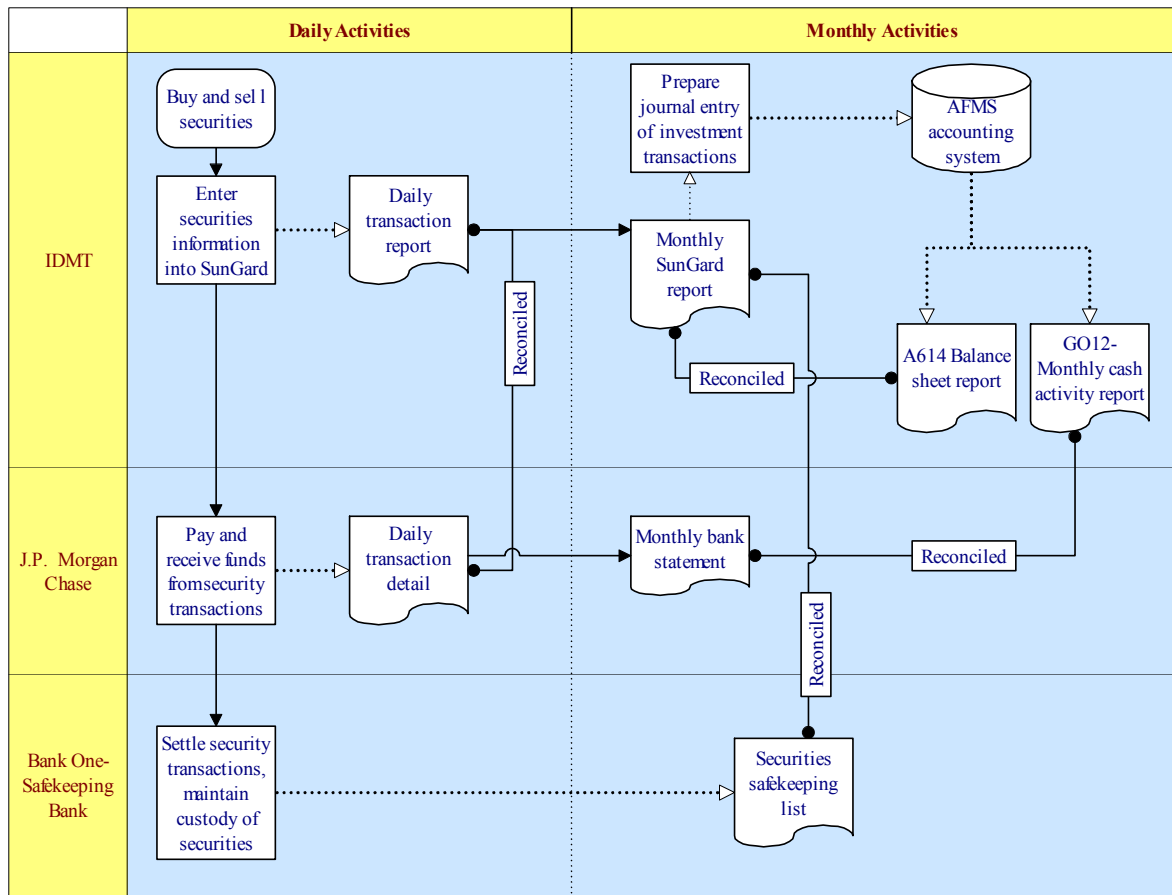
IMPLEMENTATION STRATEGIES AND TIMELINE

- | | |
|--|-------------|
| 1. The Investment Committee instructs the portfolio manager to begin using AIMR standards to compute, present, and compare monthly investment returns. | August 2001 |
| 2. The portfolio manager revises the City's presentation of monthly investment returns and explains the basis upon which investment returns are computed, presented, and compared. | August 2001 |

FINDING

IDMT does not document review and approval on two of the four investment reconciliations that it performs. The four reconciliations are designed to balance and reconcile investment activity. The first reconciles daily SunGard activity to J.P. Morgan Chase investment account activity. The second reconciles SunGard monthly activity to the AFMS financial accounting system and to the monthly J.P. Morgan Chase bank statement. The third reconciles par value, discount/premium, and accrued interest on the SunGard system to the AFMS financial accounting system. Finally, the fourth reconciles the SunGard security listing to the security listing maintained by Bank One the safekeeping bank. **Exhibit 25** provides an overview of the reconciliation process.

Exhibit 25
IDMT Investment Transaction Reconciliation Process



Source: IDMT Operating Procedures.

MJLM examined the reconciliations, noting that they were prepared on a timely basis and that reconciling items were cleared properly and timely. However, MJLM noted that review and approval were being documented on only two types of reconciliations—the daily reconciliation of SunGard to J.P. Morgan Chase and the monthly reconciliation of J.P. Morgan Chase to AFMS activity. No documentation of review and approval on the reconciliation of par value, discount/premium, and accrued interest between SunGard and AFMS was found. Nor was any documentation of review and approval found on the reconciliation of the SunGard security listing to the security listing maintained by the safekeeping custodian.

Recommendation 5:

Document review and approval on all investment reconciliations to acknowledge that they are reviewed and approved by someone other than the preparer.

Supervisory review and approval of reconciliations by someone other than the preparer is a key component of internal control. IDMT should ensure that someone at the supervisory level, other than

the preparer, reviews and approves all investment-related reconciliations. A signature line should be added to reconciliation forms to document the review and approval.

IMPLEMENTATION STRATEGIES AND TIMELINE

1. The director of IDMT instructs the financial analyst II to include a provision in the department's written operating procedures requiring review and approval of investment reconciliations by supervisory personnel other than the preparer. August 2001
2. The director of IDMT ensures that the new procedure is implemented. August 2001

FINDING

Information in six broker/dealer files needs to be updated. Section 20.0 of the Investment Policy, "*Authorized Broker/Dealers and Financial Institutions*," requires the City Controller to maintain a list of approved broker/dealers and financial institutions that are authorized to provide investment services in Texas. The policy requires an annual review of the financial condition and registrations of authorized broker/dealers and financial institutions and calls for a current audited financial statement to be on file.

Each year, in May or June, IDMT conducts an audit of broker/dealer and financial institution files to determine if required information is included and current. IDMT sends a letter to the broker/dealer or financial institution requesting the following information if it is missing from the files:

- Current audited financial statements
- Investment authority
- Broker/dealer questionnaire
- Broker/dealer certification
- Repurchase agreement
- Current resumes for the primary representatives
- NASD certification
- Texas State Securities Commission Registration

MJLM reviewed files of active broker/dealer and financial institutions, noting that six files did not contain current financial statements or Texas Securities Commission Registrations. **Exhibit 26** presents a summary of broker/dealer files not containing current information.

**Exhibit 26
Broker/Dealer Files not Containing Current Information**

Broker/Dealer	Current Audited Financial Statements	Texas Securities Commission Registration
Merrill Lynch		Expired 1998
Salomon Smith Barney		Expired 1998
Zions First National Banks		Expired 1998
Piper Jaffray		Expired 1999
Bank of America	1998 most recent on file	Expired 1999
Dain Rauscher		Expired 1998

Source: Review of Broker/Dealer Files.

IDMT conducted the most recent audit in May 2000. MJLM noted that letters were sent to broker/dealers requesting missing or current information; however, no follow up was done to ensure that it was received.

Recommendation 6:

Follow up on broker/dealer file audits to ensure that the files are complete and contain current information.

IDMT should follow up with broker/dealers to ensure that IDMT files are complete with current information. The letter requesting missing or current information should specify a date by which the information is to be returned. If the information has not been received by the due date, IDMT should issue a follow-up letter or make a follow-up phone call to obtain the information.

IMPLEMENTATION STRATEGIES AND TIMELINE

- | | |
|---|--------------------------------------|
| 1. The portfolio manager or designee conducts the 2001 broker/dealer file audit. | August 2001 |
| 2. The portfolio manager or designee identifies the information required to be on file or updated. | August 2001 |
| 3. The portfolio manager instructs the administrative assistant I to include a specific date, on the broker/dealer information request letter, by which the information is to be returned. | August 2001 |
| 4. The portfolio manager sends the letter to broker/dealers requesting the needed information. | August 2001 |
| 5. The portfolio manager instructs the administrative assistant I to issue a follow-up letter or make a follow-up phone call requesting the needed information if it has not been received by the due date specified in the letter. | August 2001 and ongoing as necessary |

FINDING

Compliance audit results are not reported to the Investment Committee as required by the Investment Policy. Section 21.0 of the Investment Policy requires the results of annual audits of investment controls and adherence to investment policies to be reported to the Investment Committee.

MJLM reviewed Investment Committee meeting minutes for the period August 1999 through January 2001, noting that a discussion of investment compliance audits was not documented. MJLM also confirmed through discussions with the City Controller's Office staff that audit results were not presented to the committee for review.

Recommendation 7:

Report the results of annual investment compliance audits to the Investment Committee, and document the committee's review of the audit report in the minutes.

Results of compliance audits should be reported to the investment committee to give them an opportunity to review audit findings and recommendations. Review of compliance audit reports is a key internal control that allows the Investment Committee to fulfill one of its key responsibilities: to recommend and monitor investment and accounting controls and procedures in accordance with the Investment Policy.

IMPLEMENTATION STRATEGIES AND TIMELINE

- | | |
|---|--|
| 1. The director of IDMT informs the Investment Committee that the annual audit of the City's financial statements is in progress. | During annual audit |
| 2. The director of IDMT receives and reviews a copy of the audit Management Letter. | Upon issuance of the Management Letter |
| 3. The director of IDMT ensures that any Management Letter findings related to investment policy compliance are reported to the Investment Committee. | Upon issuance of the Management Letter |
| 4. The Investment Committee reviews the findings, if any, and documents its review in the minutes. | Upon issuance of the Management Letter |

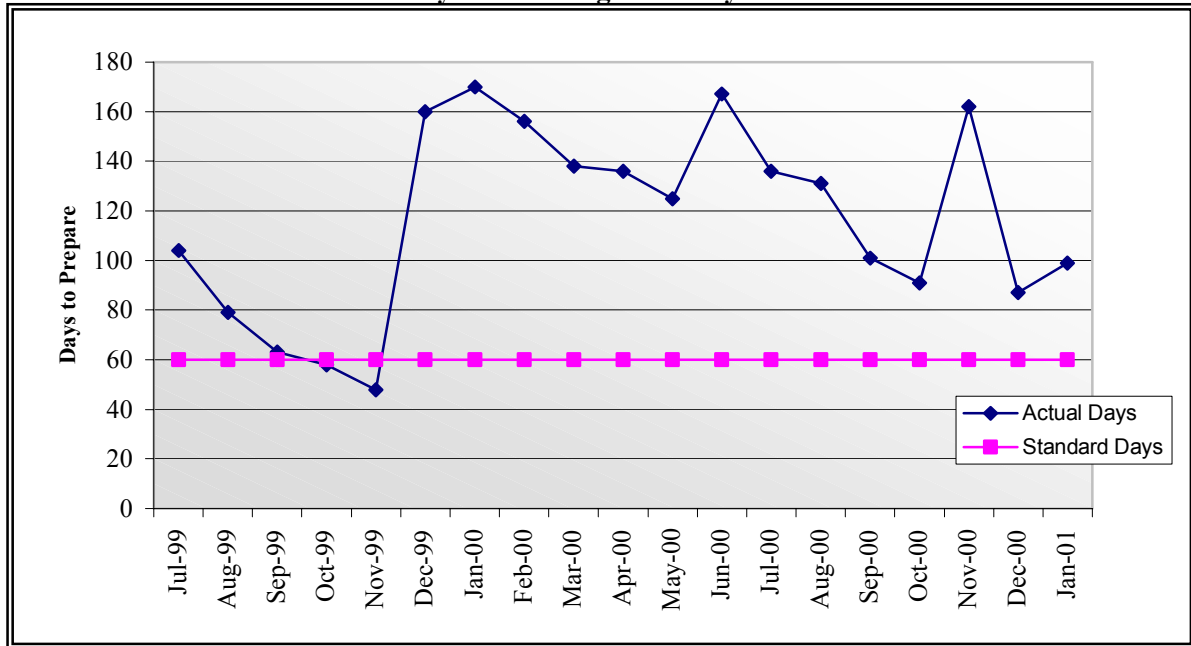
FINDING

Since city departments began reconciling their own depository bank accounts in January 2000, the number of reconciling items has been reduced significantly. However, departments are not preparing bank reconciliations and clearing open reconciling items within timeframes established by the City Controller's Financial Reporting Division. In addition, many open items cannot be associated with a specific department.

According to Financial Reporting Division requirements, departments must submit their bank reconciliation no later than the first day of the second month following the bank statement cut-off date. For example, departments received the March 31, 2001 bank statement by April 15, 2001, and are required to reconcile and submit it to the Financial Reporting Division by May 1, 2001. This schedule gives each department approximately 10 working days to complete and submit the bank

reconciliation. Once Financial Reporting has received all of the reconciliations, one employee completes the consolidated reconciliation in about 30 days. Therefore, the consolidated bank reconciliation should be completed approximately 60 calendar days after month end. Using the previous example, the March 31, 2001 bank statement should be reconciled no later than June 1, 2001. **Exhibit 27** compares actual bank-reconciliation preparation time to the 60-day standard for the period July 1999 through January 2001.

Exhibit 27
Bank-reconciliation Preparation Time
July 1999 through January 2001



Source: Bank-reconciliation Files.

Some departments are not clearing open items in a timely manner. Open items are differences between bank and book balances that have either been resolved or are being resolved. Resolved items will clear on a subsequent reconciliation once the proper journal entry has been made or the item clears the bank. Items for which no entry has been made or no bank transaction has cleared remain on the open items list. Departments are responsible for clearing open items that affect their deposit account. The Financial Reporting Division requires departments to resolve these items within 30 days.

Analysis of the January 2001 bank reconciliation reveals that, in terms of absolute dollar value, 76 percent of open items are less than 30 days old. However, the remainder is more than 30 days old and many open items cannot be associated with a specific department. **Exhibit 28** presents an aging of the January 2001 open items list by department. Dollar amounts represent absolute values.

**Exhibit 28
Open Items Aging by Department**

Department	Aging of Open Items and Absolute Dollar Amount					
	Current	1-3 Months	4-6 Months	7-12 Months	13+ Months	Total
Unidentified	0	12	4	22	78	116
	\$0	\$1,748,276	\$74,970	\$1,147,412	\$373,720	\$3,344,378
Police	11	17	6	6	0	40
	\$84,986	\$348,780	\$135,081	\$5,176	\$0	\$574,023
Housing	6	8	6	4	10	34
	\$1,625,296	\$615,875	\$162,409	\$563	\$621,588	\$3,025,731
Human Resources	3	11	5	7	0	26
	\$99,476	\$1,984	\$710	\$481	\$0	\$102,651
F&A	4	10	6	1	4	25
	\$22,530,629	\$285,605	\$106,333	\$2,544	\$146,199	\$23,071,310
Controller	8	5	7	2	0	22
	\$22,633,317	\$1,983,091	\$13,042	\$189,249	\$0	\$24,818,699
Aviation	11	4	0	6	0	21
	\$11,117	\$154,894	\$0	\$2,033	\$0	\$168,044
Library	0	8	4	7	1	20
	\$0	\$23,591	\$19,561	\$25,230	\$8	\$68,390
Planning & Development	7	11	1	1	0	20
	\$296,929	\$337,693	\$750	\$5,248	\$0	\$640,620
Convention & Entertainment	2	4	7	2	3	18
	\$296,193	\$246	\$6,232,590	\$2,650	\$2,606	\$6,534,285
Public Works	5	7	2	0	0	14
	\$935,584	\$4,627	\$266	\$0	\$0	\$940,477
Health	5	5	3	0	0	13
	\$20,393	\$641	\$173	\$0	\$0	\$21,207
Building Services	4	2	0	0	0	6
	\$5,049	\$4,087	\$0	\$0	\$0	\$9,136
Fire	2	3	0	0	0	5
	\$1,638	\$840	\$0	\$0	\$0	\$2,478
Investment & Debt Management	2	2	0	1	0	5
	\$212,377	\$212,305	\$0	\$125,778	\$0	\$550,460
Parks	4	0	0	0	0	4
	\$4,703	\$0	\$0	\$0	\$0	\$4,703
Municipal Courts	5	2	3	1	0	11
	\$22,176	\$36	\$709	\$617	\$0	\$23,538
Grand Total	79	111	54	60	96	400
	\$48,779,863	\$5,722,571	\$6,746,594	\$1,506,981	\$1,144,121	\$63,900,130
Items Percentage	20%	28%	13%	15%	24%	100%
Dollars Percentage	76%	9%	11%	2%	2%	100%

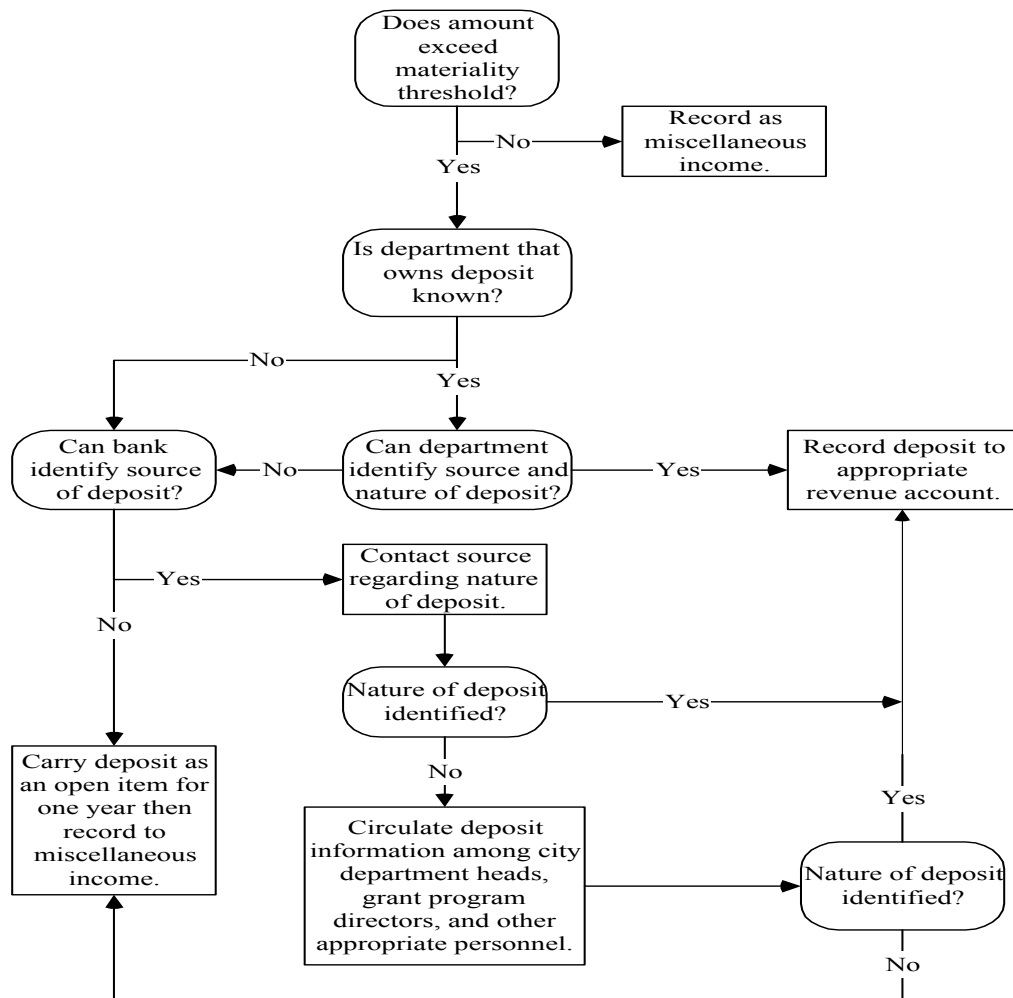
Source: January 2001 Bank-reconciliation Open Items List.

Recommendation 8:

Enforce bank-reconciliation deadlines, and develop procedures to lower the number of unidentified bank deposits.

Other priorities such as budget development, month-end close, monthly reports, and day-to-day responsibilities affect a department’s ability to prepare timely bank reconciliations and resolve open items promptly. However, timely bank reconciliations are an important internal control and are necessary for effective cash management. Consequently, requirements for timely preparation of bank reconciliations and resolution of open items should be strictly enforced. One strategy for enforcing timeliness is to track department submission dates. Departments that are consistently late should be targeted for further action ranging from the department head issuing a memo reiterating the importance of timely reconciliations to reassigning the reconciliation to an employee who can prepare it in a timelier manner.

Additionally, a strategy should be developed to lower the number of unidentified bank deposits. The strategy should include establishing a materiality threshold for researching unidentified deposits. The following diagram is a suggested decision tree for identifying the nature and source of these deposits.



IMPLEMENTATION STRATEGIES AND TIMELINE

- | | |
|---|-------------------------|
| 1. The director of F&A instructs each department director to issue a memo reiterating bank-reconciliation procedures and instructing those responsible to adhere to established deadlines. | August 2001 |
| 2. The director of F&A, in consultation with the City Controller, establishes and implements materiality guidelines and procedures for researching unidentified deposits. | August 2001 |
| 3. Appropriate F&A personnel, in cooperation with the director of the Financial Reporting Division, implement the suggested decision tree for determining the nature and source of unidentified deposits. | August 2001 and ongoing |
| 4. The director of F&A instructs city department heads to develop procedures designed to minimize unidentified deposits, such as cataloging potential sources of departmental revenue and writing specific deposit instructions in contracts. | August 2001 and ongoing |

FINDING

Consolidated bank reconciliations show an out-of-balance amount that varies from month to month, indicating that the reconciliations are being forced to balance. Forcing the bank reconciliation to balance could result in a misstatement of cash and other accounts. When the City changed depositories in December 1999, an out-of-balance amount of approximately \$2 million was carried forward on the open items list. This amount represented the accumulation of Wells Fargo open items that were never resolved. Theoretically, the amount should never change. However, it has changed in each month's bank reconciliation, and the difference between the original out-of-balance total and the current month's total represents the amount by which the reconciliation is being forced to balance. **Exhibit 29** presents a history of the out-of-balance amount since the December 1999 conversion.

Exhibit 29
Bank-reconciliation Out-of-Balance Amount

Month	Actual Out-of-Balance	Change from Previous Month
Dec-99	(\$3,836,048)	(\$1,767,513)
Jan-00	(\$3,590,749)	\$245,299
Feb-00	(\$720,654)	\$2,870,095
Mar-00	\$808,054	\$1,528,708
Apr-00	\$308,043	(\$500,011)
May-00	\$57,314	(\$250,729)
Jun-00	(\$3,973,857)	(\$4,031,171)
Jul-00	(\$4,849,867)	(\$876,010)
Aug-00	(\$5,063,672)	(\$213,805)

Exhibit 29 (continued)
Bank-reconciliation Out-of-Balance Amount

Month	Actual Out-of-Balance	Change from Previous Month
Sep-00	(\$4,265,416)	\$798,256
Oct-00	(\$4,320,961)	(\$55,545)
Nov-00	(\$5,733,017)	(\$1,412,056)
Dec-00	(\$5,253,735)	\$479,282
Jan-01	(\$5,533,660)	(\$279,925)

Source: Bank Reconciliations December 1999 through January 2001.

Recommendation 9:

Update the bank-reconciliation out-of-balance amount and resolve future differences as they occur.

Since it would not be cost effective to research and resolve the differences noted in **Exhibit 29**, the City should update the out-of-balance amount as of the most recent bank reconciliation. The new out-of-balance amount should be monitored. Changes should be investigated and resolved to ensure that monthly bank reconciliations are not being forced to balance.

IMPLEMENTATION STRATEGIES AND TIMELINE

1. The director of the Financial Reporting Division instructs appropriate staff to isolate the out-of-balance amount for the most recent bank reconciliation. August 2001
2. The director of the Financial Reporting Division instructs the appropriate staff to monitor the out-of-balance amount and to resolve differences promptly. August 2001

FINDING

Although the City has made extensive use of other banking services, it has not maximized the use of electronic funds transfer (EFT) technology. As of April 27, 2001, only 316 of the City's approximately 192,000 vendors were being paid through EFT. In addition, only 69 percent of city employees were paid through direct deposit.

EFT is the automatic debit or credit of a bank account and the electronic transfer of funds into or out of a bank account. EFT applications include electronic vendor payments as well as direct deposit of employee paychecks. These payments are processed through the Automated Clearing House (ACH), which is the electronic banking system in the United States. EFT applications are valuable cash-management tools that will become more essential with the advent of e-commerce in the Internet-based economy.

EFT payments have several advantages over traditional paper checks. First, EFT transactions cost less than checks and wire transfers. Second, as EFT transactions and dollar volumes increase, their costs decline relative to paper transactions. Third, EFT transactions are easier to reconcile because they are electronic in nature and clear the bank immediately. Finally, with EFT, the guesswork of

deciding when checks will clear the bank is eliminated. Therefore, disbursements become more predictable and controllable. As a result, daily investment forecasts are more accurate.

Direct deposit is a win-win situation because it makes payroll processing more efficient for the City and more convenient for employees who benefit in the following ways by having their paychecks direct deposited:

- Saves time.
- Eliminates trips to the bank.
- Ensures that pay is deposited even while employee is out of town, on vacation, or sick.
- Eliminates lost, stolen, or forged paychecks; Direct deposit is safe.
- Eliminates potential for paycheck fraud.

Some city employees do not have checking accounts and use check-cashing centers to cash their checks. This practice is both costly and inconvenient. The City's depository offers a payroll debit card funded by direct deposit that would allow city employees to access their paychecks through automatic teller machines. Employees who do not have a checking account would benefit from this service in terms of cost and convenience.

Recommendation 10:

Increase electronic funds transfers for vendor payments, and increase direct-deposit participation among employees.

The City should require vendors with city contracts in excess of \$50,000 per year to be paid through EFT. This condition should be made a part of vendor contracts and should be considered a requirement of doing business with the City. In this way, the City could increase vendor participation in its EFT program.

Direct deposit-participation should be increased through focused marketing efforts such as paycheck stuffers, newsletters, department flyers, and discussions of the benefits of direct deposit during new employee orientation. The City should also consider implementing direct deposit week, during which the benefits of direct deposit are promoted and participation encouraged.

The City should also consider establishing a payroll debit card program to benefit employees who do not have a checking account.

IMPLEMENTATION STRATEGIES AND TIMELINE

- | | |
|--|-------------|
| 1. The City Controller and the F&A director discuss strategies to increase the number of vendors paid through EFT. | August 2001 |
| 2. The City Controller and the F&A director discuss the feasibility of incorporating EFT requirements in vendor contracts that exceed \$50,000 per year. | August 2001 |

3. The F&A director instructs the Payroll department supervisor to develop and implement a program promoting direct deposit among employees, including designation of a direct deposit week. August 2001
4. The F&A director instructs the Payroll department supervisor to develop and implement a payroll debit card program as a direct-deposit alternative for employees who do not have a checking account. September 2001

FINDING

The City Controller and F&A do not coordinate actual historical amounts used in cash-flow forecasts to ensure that the amounts agree. Moreover, cash-flow forecasts are based on report criteria that have not been modified since 1993.

The City Controller and F&A prepare separate cash-flow projections to forecast the City’s year-end cash position. Although projected amounts in these forecasts will always differ, actual amounts should always agree, but they do not. **Exhibit 30** illustrates the differences noted in actual ending cash balances for June 2000 through March 2001 cash forecasts.

Exhibit 30
Differences in Actual Cash Balances from Cash-flow Projections
City Controller and Finance and Administration Department
(In Thousands)

Month	Actual Ending Cash Balance		Difference Controller to F&A
	Per F&A’s Forecast	Per Controller’s Forecast	
Jun-00	\$17,357	\$17,983	\$626
Jul-00	\$109,490	\$112,515	\$3,025
Aug-00	\$107,138	\$109,916	\$2,778
Sep-00	\$66,107	\$68,385	\$2,278
Oct-00	\$13,759	\$15,891	\$2,132
Nov-00	\$34,268	\$36,401	\$2,133
Dec-00	\$10,352	\$12,485	\$2,133
Jan-01	\$147,667	\$149,800	\$2,133
Feb-01	\$339,797	\$339,574	(\$223)
Mar-01	\$280,415	\$296,789	\$16,374

Source: Finance and Administration and City Controller’s Cash-flow Forecasts.

The source for both sets of figures is the General Fund Daily Cash Transactions Report, also known as the CF05 report. The CF05 report is a daily summary of General Fund cash transactions. Several problems with this report occurred in the past, which may account for the differences noted above. These problems are summarized below:

- The ending cash balance for some months did not carry over to the beginning cash balance for the following month.
- An increasing number of transactions were classified in the “other” category, making the report less useful.

- Significant changes were occurring to cash balances without explanation.
- A report (CF06) designed to provide detail for the CF05 report did not provide subtotals that tied back to amounts on the CF05. As a result, the detailed reports were not useful for identifying and resolving errors in the CF05.
- The CF05 is a summary of daily transactions that should agree with the CF10, which is a monthly summary of cash transactions. The reports do not agree because the CF05 is a calendar month report, and the CF10 is an accounting month report.

One other key problem with the CF05 and CF10 is that the program criteria for the reports have not changed since 1993. The manner in which the City does business has changed, its account code structure has changed; however, criteria for the CF05 and CF10 have not changed. The reports accumulate cash transactions in the same manner they did in 1993. As a result, many transactions are being classified to “other” instead of to a more descriptive revenue source or object code.

The Information Services Division of F&A (FISD) is making enhancements to the CF06 detailed transaction report to make it easier to interpret and resolve errors on the CF05 summary report. However, problems with the CF05 summary report continue. As recently as June 13, 2001, the report showed an out-of-balance difference of \$18,232, as shown in **Exhibit 31**.

**Exhibit 31
June 13, 2001 Cash Transaction Report**

Page	1	CITY OF HOUSTON	01-06-13
	REPORT NO: CF05	CASH TRANSACTION REPORT	PAGE NO:
	PROGRAM: AFMCS05	GENERAL FUND (100)	RUN DATE: 06/13/2001

	AMOUNT
BEGINNING CASH BALANCE:	
CASH IN BANK	199.52
EQUITY IN POOLED INVESTMENTS	28,157,395.47
TOTAL	28,157,594.99
RECEIPTS:	
BALANCE SHEET TRANSACTIONS	711,631.65
NOTE PROCEEDS & SHORT-TERM BORROWINGS	.00
AD VALOREM TAX	.00
SALES TAX	23,433,612.90
MIXED BEVERAGE TAX	.00
INTERGOVERNMENTAL	.00
FRANCHISE TAX	10,928.98
INDUSTRIAL ASSESSMENTS	.00
LICENSES AND PERMITS	118,476.14
MUNICIPAL COURTS FINES & FORFEITURES	1,011,090.55
INTERFUND	15,134.48
INTEREST APPORTIONMENT	.00
OTHER	292,072.92
TOTAL RECEIPTS	25,592,947.62
DISBURSEMENTS:	
BALANCE SHEET TRANSACTIONS	.00
PAYROLL	.00
WORKERS' COMPENSATION	.00
OPERATING TRANSFER OUT	.00
SUPPLIES	6,448.00
CONTRACT SERVICES	122.00
RENTAL & LEASINGS	.00
UTILITIES	8.94
INTERFUND	792.00
CAPITAL OUTLAY	.00
OTHER	135,637.85
TOTAL DISBURSEMENTS	128,266.91
NET ACTIVITY	25,464,680.71
ENDING CASH BALANCE:	
CASH IN BANK	199.52
EQUITY IN POOLED INVESTMENTS	53,640,308.45
TOTAL	53,640,507.97
DIFFERENCE	\$ 18,232.27-

Out-of-balance amount

Source: June 13, 2001 CF05 Cash Transaction Report.

Once the problems with these reports have been fully resolved, it will be necessary for the Controller's Office and F&A to coordinate efforts to ensure that actual historical amounts used in cash-flow projections are the same. It will also be necessary for the program criteria to be updated so that the reports reflect the way the City currently does business.

Recommendation 11:

Coordinate Controller and F&A cash forecasts to ensure that actual historical amounts in forecasts agree, and update the program criteria of the CF05 and CF10 reports.

The Controller's Office and F&A should coordinate their cash-flow projections to ensure that historical actual amounts are the same. They should also ensure that historical actual figures are drawn from the same source. Once modifications to the CF06 have been completed, the Controller's Office and F&A should update the program criteria underlying these reports to ensure that they accumulate cash transaction data into useful categories based upon the City's current business environment and accounting practices.

IMPLEMENTATION STRATEGIES AND TIMELINE

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|---|-------------------------|
| 1. Representatives of the City Controller's Office and F&A meet to discuss the source of historical actual amounts used in cash-flow projections. | August 2001 |
| 2. Representatives of the City Controller's Office and F&A discuss reasons for the differences in the actual historical amounts in their respective cash forecasts. | August 2001 |
| 3. Representatives of the City Controller's Office and F&A ensure that actual historical amounts used in their respective cash forecasts agree. | August 2001 and ongoing |
| 4. Representatives of the City Controller's Office and F&A determine what program modifications should be made to ensure that the CF05 and CF10 reports reflect the City's current business practices and account code structure. | September 2001 |
| 5. Representatives of the City Controller's Office and F&A jointly prepare a Request for Service to the Information Services Division of F&A to modify the program underlying the CF05 and CF10 reports. | September 2001 |

FINDING

Each month and every quarter, IDMT prepares an investment report for the Investment Committee. The quarterly reports are available to the general public on the City's web site. Although the reports comply with provisions of the City's investment policy, they could be enhanced with a brief executive summary of factors affecting portfolio composition, investment strategy, and performance results for the period. These factors could be internal, such as how the portfolio was affected by cash-flow requirements, or external, such as the effect of current market conditions on the portfolio and investment strategy. An executive summary would give the reader an overall perspective, leading to a better understanding of the portfolio's characteristics and the environment in which it exists.

Recommendation 12:

Include an executive summary in investment reports.

IMPLEMENTATION STRATEGIES AND TIMELINE

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| 1. The director of IDMT instructs the portfolio manager to write a brief executive summary for the investment report. | August 2001 |
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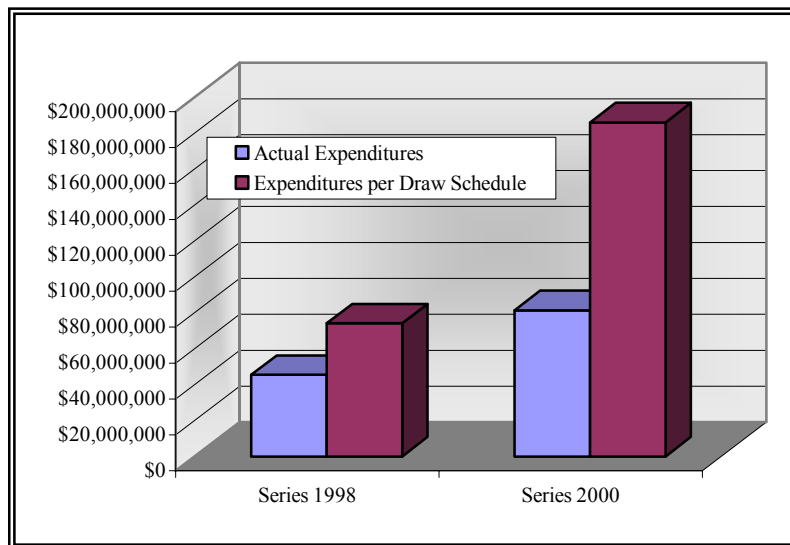
- 2. The portfolio manager drafts an executive summary for the director’s review and approval. August 2001
- 3. The director of IDMT reviews and approves the summary and instructs the portfolio manager to include an executive summary in future investment reports. August 2001

FINDING

IDMT does not receive current, accurate aviation construction draw schedules to accurately project liquidity requirements for Series 1998 and 2000 airport bond funds. IDMT uses draw schedules to determine how long to invest construction bond funds. Draw schedules specify when bond money will be needed to pay airport construction obligations. Accurate draw schedules are critical because they enable IDMT to accurately project liquidity requirements. Without current, accurate draw information, it is difficult for IDMT to maximize investment returns on bond funds.

As of May 31, actual expenditures for Series 2000 bond funds were approximately \$104.5 million less than expenditures projected on the most recent draw schedule. Series 1998 actual expenditures were \$28.6 million less than expenditures projected on the most recent draw schedule. This means that the investment portfolio is more liquid than necessary because bond funds are not being spent as quickly as draw schedules project they will be spent. Accurate draw schedules would have allowed aviation construction funds to be invested longer at higher interest rates. Since rates have fallen about 250 basis points since December 2000, maturing aviation construction funds must now be reinvested at lower interest rates, resulting in lower investment returns for the City. **Exhibit 32** compares actual expenditures to draw schedule projections for Series 1998 and 2000 aviation bond funds. Series 1998 amounts are for January through May 2001, and Series 2000 amounts are for November through May 2001.

Exhibit 32
Airport Bond Funds
Actual vs. Projected Expenditures



Source: IDMT Summary of Actual and Projected Aviation Bond Funds.

Recommendation 13:

Provide updated aviation construction draw schedules to the Investment and Debt Management Division at least semiannually.

The Aviation Department should ensure that IDMT receives updated construction draw schedules at least semiannually or more frequently if significant changes in estimates occur. While it may not be possible to provide precise estimates of construction activity due to various factors such as weather conditions, relationships with contractors, and unforeseen events, the Aviation Department should provide IDMT with updated draw schedules reflecting its best estimate of construction activity.

IMPLEMENTATION STRATEGIES AND TIMELINE

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| 1. The director of Aviation and appropriate Aviation personnel meet with the director of the Investment and Debt Management Division and the portfolio manager to discuss the importance of timely, accurate draw schedules as well as the constraints of providing timely, accurate draw schedules. | August 2001 |
| 2. The director of Aviation, in consultation with appropriate Aviation personnel, develops a plan to ensure that the Investment and Debt Management Division receives a “best estimate” of airport construction activity at least semiannually, with more frequent updates to reflect significant changes. | August 2001 and ongoing |

FINDING

Franchise contract payment terms are not structured to maximize the City’s cash flow because the City receives franchise fees either annually or quarterly, rather than monthly. The City grants energy, telephone, cable television, and other companies the right to use public property for private purposes and charges each a franchise fee. Effective cash management requires that these funds flow as expeditiously as possible into the City’s bank account to be invested and used in normal operations. However, the payment terms in these franchise agreements favor the franchisee, not the City, because payments are received quarterly or annually, rather than monthly. Consequently, the City forfeits the benefit of timely cash flows, which provide additional funds for investment and operations.

Fiscal 2000 franchise fees were \$147 million or 12 percent of General Fund revenue. The City generally grants franchise rights for 4 to 30 years. However, one contract has a 50-year term, while another has a 104-year term. Ten contracts come up for renewal during fiscal 2002. **Exhibit 33** summarizes franchise contracts by type, renewal dates, and payment terms.

**Exhibit 33
Summary of Franchise Contracts**

Franchise Type	Number of Contracts	Initial Contract Term	Remaining Contract Term	Payment Terms
Cable Providers	7	9-15 years	3 months-14 years	Quarterly
Electricity	2	50 & 104 years	6 & 8 years	Quarterly
Natural Gas	4	10-30 years	6-29 years	Annually & Quarterly
Fiber Optic Providers	9	4-16 years	1 month to 9 years	Annually & Quarterly
Pipelines	51	30 years, except one, 20 years	2-10 years	Annually

Source: Finance and Administration Department.

Recommendation 14:

Consider renegotiating franchise fee payment terms as franchise contracts are renewed.

As franchise contracts are renewed, the City should negotiate monthly payment schedules rather than quarterly or annual payment schedules. Monthly payments result in a steadier stream of cash and provide the City with the benefits of more timely cash flows. To the extent that franchise payments are calculated based on information that may not be known at the time the payment is due, monthly payments should be based on estimates that are “trued up” at the end of some agreed upon period, such as a quarter or year. In this way, the City is assured of a steady stream of cash from franchise fee payments.

IMPLEMENTATION STRATEGIES AND TIMELINE

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| 1. The director of F&A directs appropriate F&A personnel to identify franchise contracts coming up for renewal during the current fiscal year. | Beginning August 2001 and continuing each July thereafter. |
| 2. The director of F&A, in consultation with the Legal Department, revises payment terms in the contracts to reflect monthly rather than quarterly or annual payments. | Beginning August 2001 and continuing each July thereafter. |
| 3. The director of F&A and appropriate city personnel negotiate payment terms with franchisees as franchise contracts are renewed. | Beginning fiscal 2002, and continuing as contracts are renegotiated. |

5.0 BENCHMARKING SURVEY ANALYSIS

MJLM obtained benchmarking surveys from five cities, two school districts, and one corporation to identify their cash-management policies, procedures, and practices. The organizations are summarized below:

Participating Organizations

- Atlanta, GA
- New York City, NY
- Pittsburgh, PA
- San Antonio, TX
- Austin, TX
- Houston Independent School District
- Dallas Independent School District
- Continental Airlines

The cash-management survey includes three general sections: Organization and Management; Policies and Procedures; Operations and Systems. The following is a general overview of survey responses by section.

Organization and Management

- Of the five cities responding, two have an elected mayor and controller, the other three elect the mayor and have no controller. Of the three without a controller, one has a chief financial officer who is head of the Finance Department and the other two have a director of Finance who reports to the appointed city manager.
- In the cities that elect only the mayor, the Department of Finance or Treasury is responsible for cash and investments.
- In one of the cities that elects both the mayor and controller, the Finance Department, which is responsible to the mayor, manages the bank accounts and determines amounts available for investment, and the controller makes and manages investments. In the other, the Finance Department, also responsible to the mayor, handles all aspects of cash, investment and banking service management, while the controller's accounting group reconciles bank accounts and certifies funds.
- Responsibility for cash-management functions such as forecasting, investing, bank reconciliations, and banking services management varies depending on the type of organization. The two school districts indicated that the chief financial officer is responsible for all of these functions. The corporate respondent indicated that the controller or treasurer's group is responsible for these functions. One peer city indicated that these functions are divided between the mayor and controller. The other four peer cities indicated that these functions are the responsibility of the Finance Department, which reports to the mayor and city council in two cities and to the appointed city manager in the other two.
- Of the six organizations responding to questions regarding staff credentials, responses indicate that cash-management staff are highly credentialed and experienced.

Policies and Procedures

- Four of the eight respondents indicated that they have a comprehensive cash-management policy; four do not. Two of the five peer cities have a policy; the other three do not.
- Each respondent indicated that there was a legal basis for establishing cash-management authority and responsibility. The school districts and the corporate entity indicated board and investment policy were the legal bases. One peer city indicated the Code of Ordinances, and the other four indicated City Charter were the legal bases.
- Seven of eight respondents have an investment policy.
- Four of seven responding entities have a policy governing cash advances between accounting funds or corporate divisions as applicable; one city did not respond.
- Only the corporate respondent has a policy governing cash advances between bank accounts.
- Four of eight have a policy governing short-term borrowing to provide for cash-flow needs. Two organizations did not respond.
- Four of eight have a policy governing maintenance of cash levels in relationship to specific levels of fund balances, average expenditures, or some other basis. One organization did not respond.
- Three of eight have a policy governing cash shortfalls. Two organizations did not respond.
- Seven of eight respondents indicated that their organization maintains some type of “rainy day fund.”
- One school district indicated the “rainy day fund” is a line of credit. The other school district has established a permanent \$40 million fund of excess tax revenues over budget. The corporate respondent maintains a large percentage of working capital invested in securities that can be converted to cash with one days notice and keeps \$20 million in money market funds. One peer city indicated that the “rainy day” fund is based on a percentage of recurring revenue; one applies the GFOA standard for fund balance. One peer city is working to establish a reserve of five percent of the General Operating Fund budget, while another provides for an emergency reserve of at least \$15 million.

Operations and Systems

Banking Services

- Four of eight respondents use automated sweep accounts.
- Six of eight use lockbox services.
- Six of eight use ACH payments.
- All eight use direct payroll deposit.
- All eight use controlled disbursement for non-payroll checks.
- Four of eight use controlled disbursement for payroll checks.
- Six of eight use positive pay.
- Five of eight use automated account reconciliation.
- Five of eight use zero balance accounts.

- Seven of eight use same day bank reporting.
- All eight use treasury workstations.
- All eight use wire transfers.
- Seven of eight use stop payment, prior day balance reporting, prior day debit detail, prior day debit summary and ACH transfer.
- Six of eight use prior day credit report.
- Of the eight respondents, three pay bank fees using a combination of compensating balances and direct fee payments, three use compensating balances only, and the other two pay direct fees.
- All eight respondents bid their banking services contract. Bidding periods range from every year to every four to six years.
- Respondents maintain major banking relationships with one to 26 banks.

Cash Forecasting

- Seven of eight respondents indicated that cash forecasts are used to project cash needs, make borrowing decisions, and develop investment strategies.
- Tools used to generate cash forecasts include Excel spreadsheets, Quantum treasury system, proprietary database modules, Evare investment software, and Chase Microlink and Invision treasury workstation.
- The four cities that use cash forecasts indicated that the mayor and controller do not prepare separate cash forecasts.

Investment & Debt Management

- Five respondents indicated that investment reports are prepared quarterly, one indicated monthly, one does not prepare investment reports, and one did not respond.
- Six respondents listed the type of software used to track investments, debt, and banking activity. Two did not respond.
- Six respondents indicated that council/board approval is not required to transfer money between accounts. One city indicated that legislation is required and one city did not respond.
- When asked to describe the process and requirements for borrowing cash to meet short-term cash requirements, one school district indicated their line of credit could be used with board approval. The other district indicated that borrowing was not needed but would require board approval if it were needed. The corporate respondent maintains sufficient cash balances to meet obligations without borrowing but also maintains a bank line of credit to be used if needed. One peer city maintains a money market mutual fund to ensure short-term operating needs are met, one uses repurchase agreements, one requires city council approval and the other two do not borrow cash.
- All respondents indicated that they use cash forecasting techniques to ensure that investment mature in time to meet obligations.
- Idle cash balances swept into overnight balances during calendar year 2000 was less than one percent for one school district respondent. The other district indicated a \$200,000 daily average. One peer city indicated \$75-\$100 million, another city indicated 96 percent, one

maintains a separate money market mutual fund which allows 100% of idle funds over the compensating balance to be swept, and two cities did not respond.

- Seven of the respondents use some type of benchmark against which to measure investment performance. One city did not respond.
- Three of the seven respondents indicated that they use an automated system to either initiate investments, track performance, or obtain rate and market information. One is currently testing a system while the other four respondents indicated that they do not use such systems.

Operating Cash Management

This section was not originally included in the survey tool. The responding entities were contacted by phone; four of the five provided information about their method of operating cash management.

- Of the respondents, two indicated that their separate funds or business units maintained separate bank accounts.
- Cash disbursements for all of the six responding entities are made from single concentration or disbursement accounts. Two cities did not respond.
- Accountability for recorded cash was maintained by one of the respondents through separate bank accounts for each fund and by the other four respondents through accounting entries. Two cities did not respond.

Initiatives

The following are some of the current initiatives respondents are implementing to improve their cash-management processes:

- 100 percent electronic payroll
- Vendor ACH payments
- ACH travel reimbursements
- Travel and entertainment procurement card
- Cash-management module integrated with new financial system to automate cash and investment journal entries for reporting efficiency
- Cash forecasting for all international locations
- Researching allowable but currently unused investment vehicles to improve investment performance
- Testing buy/sell module to automate investment tracking and take advantage of market movements

6.0 BENCHMARKING SURVEY TABULATION

ORGANIZATION & MANAGEMENT	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
1. Does your city have a mayoral form of government with an elected city controller?	Yes	N/A	N/A	N/A	Mayor, no controller	Mayor, no controller	Mayor, no controller	Yes	Yes
2. Please summarize the division of responsibilities between the mayor and controller with regard to cash and investment management activities.	<p>Controller, is responsible for most functions such as investment management, bank account reconciliation, banking relationships, and funds certification.</p> <ul style="list-style-type: none"> F&A projects cash-flow needs for the purpose of issuing Tax and Revenue Anticipation Notes. 	N/A	N/A	N/A	The City of San Antonio has a council-manager form of government. The City Council is composed of 10 members elected by district while the Mayor is elected at large. The City Manager is appointed and serves as the chief administrative officer of the City.	The Department of Treasury is primarily responsible for all cash and investment management activities. The Finance Director is responsible for the Department of Treasury and reports to the appointed City Manager.	Department of Finance is responsible for cash and investments; Mayor and council receive quarterly investment reports.	<ul style="list-style-type: none"> Mayor controls all aspects of Investment and Cash Management Controller accounts for transactions, reconciles bank accounts, and releases funds for wiring between banks Comptroller-Handles investments 	<ul style="list-style-type: none"> Mayor-manages bank accounts and determines amount available for investment (through Finance Department)

ORGANIZATION & MANAGEMENT	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
3. What department(s) within your city has responsibility for the following functions: (To whom (Mayor, City Manager, Controller, etc.) do these departments report?)									
Budget	Finance & Administration (Mayor) and City Council	Budget (CFO)	Budget (CFO)	Financial Planning (Controller's group)	Office of Management & Budget (Mayor, City Manager, Controller, etc.)	Budget (City Manager)	Finance (Mayor, Council)	Finance (Mayor)	Office of Management & Budget (Mayor, Comptroller)
Cash Forecasts	Investment & Debt Management Division (Controller) and Finance & Administration (Mayor)	Treasury (CFO)	Controller's Office (CFO)	Cash Management (Treasury)	Finance (City Manager)	Treasury (City Manager)	Finance (Mayor, Council)	Finance (Mayor)	Comptroller
Daily Cash Management	Investment & Debt Management Division (Controller)	Treasury (CFO)	Controller's Office (CFO)	Cash Management (Treasury)	Finance (City Manager)	Treasury (City Manager)	Finance (Mayor, Council)	Finance (Mayor)	Department of Finance (Mayor)
Investment of Available Cash	Investment & Debt Management Division (Controller)	Treasury (CFO)	Controller's Office (CFO)	Cash Management (Treasury)	Finance (City Manager)	Treasury (City Manager)	Finance (Mayor, Council)	Finance (Mayor)	Comptroller

ORGANIZATION & MANAGEMENT	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
Debt Management	Investment & Debt Management Division (Controller) Finance & Administration (Mayor)	Treasury (CFO)	Controller's Office (CFO)	Corporate Finance (Treasury)	Finance (City Manager)	Treasury (City Manager)	Finance (Mayor, Council)	Finance (Mayor)	Comptroller
Bank Reconciliations	Financial Reporting Division (Controller)	Quality Control (CFO)	Controller's Office (CFO)	Corporate Accounting (Controller's group)	Finance (City Manager)	Controller (City Manager)	Finance (Mayor, Council)	Accounting (controller)	Comptroller
Certification that Cash is Available to Pay Obligations	Controller	Treasury (CFO)	Controller's Office (CFO)	Cash Management (Treasury)	Finance (City Manager)	Treasury (City Manager)	Finance (Mayor, Council)	Accounting (controller)	Financial Information Services Agency (Mayor, Comptroller)
Cash Collection & Deposits	Finance & Administration (Mayor)	Treasury (CFO)	Controller's Office (CFO)	Commercial Receivables (Controller's group)	Finance (City Manager)	Operating Departments	Finance (Mayor, Council)	Finance (Mayor)	Department of Finance (Mayor)
Financing (Borrowing) Activities	Investment & Debt Management Division (Controller) Finance & Administration (Mayor)	CFO/Treasury (Superintendent/CFO)	Controller's Office (CFO)	Corporate Finance (Treasury)	Finance (City Manager)	Treasury (City Manager)	Finance (Mayor, Council)	Finance (Mayor)	Comptroller
Banking Services Management	Investment & Debt Management Division (Controller)	Treasury (CFO)	Controller's Office (CFO)	Cash Management (Treasury)	Finance (City Manager)	Treasury (City Manager)	Finance (Mayor, Council)	Finance (Mayor)	Department of Finance (Mayor)

ORGANIZATION & MANAGEMENT	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
<p>4. What is the organizational structure and staffing within the area(s) identified in (3) above with primary responsibility for cash management and for investment management?</p>	<p>The Investment & Debt Management Division consists of 6 staff (an Assistant Director /Portfolio manager and 2 analysts dedicated to investments and a Financial Analyst and 2 administrative assistants) all reporting to the IDMT Director.</p>	<p>The 8-person Treasury Office is a division of Finance and Accounting. An Assistant Treasurer, a Specialist I, an Accounting Liaison, an Administrative Clerk II, and 3 Travel Department staff report to the Treasurer.</p>	<p>Treasury is a division under the Controller. The Treasurer reports to the Controller. Both are investment officers in addition to the CFO.</p>	<p>Financial Planning- approx. 16 FTEs; Corp. Accounting-4 FTEs; Corp. Finance-7 FTEs; Cash Mgmt-7 FTEs (Managing Director, Director, 4 Treasury Analysts, 1 Treasury Clerk)</p>	<p>The Department of Finance is responsible for cash and investment activities, and the Director of Finance reports directly to the City Manager. The Financial Management division of the Finance Department consists of an Investment Officer, 3 Finance Officers, & a Financial Analyst who report to the Financial Manager.</p>	<p>The Department of Finance, led by the Treasurer, is divided into 3 divisions— Investment Management, Debt Management, and Cash Management. Each division is led by an Assistant Treasurer. The Treasurer reports to the Finance Director who reports to the appointed City Manager.</p>	<p>The Department of Finance is managed by the CFO; a Deputy CFO manages 3 separate divisions which are headed up by Directors.</p>	<p>The Department of Finance is separated into General Office Administration with a staff of 13 including a Treasurer and Deputy Treasurer reporting to the Assistant Finance Director, and the Office of Management and Budget with staff of 3 reporting to the Assistant Director. Both divisions are led by the Finance Director.</p>	<p>Staff of 7 reports to Assistant Commissioner for Treasury who reports directly to the Commissioner of Finance, a mayoral appointee.</p>

STAFF CREDENTIALS	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
Staff Responsible for: Cash Management (Job title – years of experience, academic credentials, professional certifications if any)	<ul style="list-style-type: none"> • Director-20, MBA, CFA • Assistant Director-15, BS, CPA • Financial Analyst IV - 19, BBA 	<ul style="list-style-type: none"> • Treasurer - 20, BS • Assistant Treasurer - 17, BS • Specialist I -3, BBA 	<ul style="list-style-type: none"> • Controller-20, BS, MS, CPA • Treasurer-20, BS, MBA • CFO-31, BS 	<ul style="list-style-type: none"> • Managing Director - 8, BS, CPA, CCM • Director - 5, BS, CPA, CCM 	<ul style="list-style-type: none"> • Financial Manager - 9, BBA • Financial Analyst - 3, MBA • Investment Officer - 2, MBA • Finance Officer/Debt - 3, BBA • Finance Officer/TIF, Housing, Other – 7, MBA • Finance Officer/Banking & Investments - vacant 	<ul style="list-style-type: none"> • Treasurer - BBA, CPA • Assistant Treasurer- BBA, CCM • Financial Analyst III - MBA 	No Response	<ul style="list-style-type: none"> • Finance Director - 5, MPA • Treasurer - 30 • Assistant Finance Director - 8, MPA • Assistant Director, Office of Management & Budget - 10, MBA • Deputy Treasurer - 11, MPA, CPA 	No Response
Investment Management (Job title – years of experience, academic credentials, professional certifications if any)	<ul style="list-style-type: none"> • Director - 20, MBA, CFA • Assistant Director - 15, BS, CPA • Financial Analyst IV - 19, BBA 	<ul style="list-style-type: none"> • Treasurer - 20, BS • Assistant Treasurer - 17, BS • Specialist I -3, BBA 	<ul style="list-style-type: none"> • Controller-20, BS, MS, CPA • Treasurer-20, BS, MBA • CFO-31, BS 	<ul style="list-style-type: none"> • Treasury Analyst - 7, BS • Treasury Analyst - 2 • Treasury Clerk - 2 	<ul style="list-style-type: none"> • Financial Manager - 9, BBA • Financial Analyst - 3, MBA • Investment Officer - 2, MBA • Finance Officer/Debt - 3, BBA • Finance Officer/TIF, Housing, Other – 7, MBA • Finance Officer/Banking & Investments - vacant 	<ul style="list-style-type: none"> • Treasurer – BBA, CPA • Assistant Treasurer- BBA • Financial Analyst III- BBA • Financial Analyst II- AAS 	No Response	<ul style="list-style-type: none"> • Finance Director - 5, MPA • Treasurer - 30 • Assistant Finance Director - 8, MPA • Assistant Director, Office of Management & Budget - 10, MBA • Deputy Treasurer - 11, MPA, CPA 	No Response

POLICIES & PROCEDURES	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
5. Does your city/entity have a comprehensive cash-management policy?	No	Yes	Yes	No	No	Yes	Yes	No	No
6. What is the legal basis for establishing departmental cash-management authority and responsibility? (City Charter, Code of Ordinances, State Law, Board Policy, Other)	City Charter, Code of Ordinances	Board Policy, Investment policy, State Law (TPFIA)	Board Policy, Investment policy, State Law	Board Policy, Investment policy	City Charter, State Law	City Charter, State Law	Code of Ordinances	City Charter	City Charter
7. Policies governing the following activities exist:									
a. Investment management, allowable investments, portfolio restrictions, etc.?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
b. Cash advances between accounting funds/subsidiaries/corporate divisions, etc.?	No	No	No	Yes	No response	Yes	Yes	Yes	No
c. Cash advances between bank accounts?	No	No	No	Yes	No response	No	No	Yes	No
d. Short-term borrowing, use of tax revenue and anticipation notes and/or availability of other applicable procedures to provide for short-term cash-flow needs?	No	No	Yes	Yes	No response	No	Yes	Yes	No response

POLICIES & PROCEDURES	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
e. Maintaining cash levels in relationship to specific percentages of unreserved and/or reserved accounting fund balances, working capital, average expenditures, or some other basis as applicable?	No	N/A, no reserve	Yes	Yes	No response	Yes	Yes	No	No
f. Covering cash shortfalls in the general accounting fund or working capital requirements as applicable?	No	No	No	Yes	No response	No	Yes	Yes	No response
8. Does your city/district/company maintain "rainy day" cash reserves in case of emergencies or cash shortages?	No	Have a \$20 MM LOC with depository--have not needed to exercise in past 2 years	Yes	Yes	Yes	Yes	Yes	Yes	No
If yes, how is the reserve amount determined?	N/A	N/A, no reserve	Established a \$40 MM permanent fund which is excess tax revenues over budget.	In accordance with investment policy; a large percentage of working capital must be invested in securities which can be converted to cash within one days notice; an additional \$20MM is kept in money market funds.	The City is working towards achieving a reserve of 5% of the General Fund operating budget.	Financial Policies provide for a budgeted General Fund emergency reserve of at least \$15MM.	Percentage of recurring revenue	Use GFOA standard for fund balance	N/A

OPERATIONS & SYSTEMS Banking Services	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
1. Please provide a list of the bank accounts used by your city and include a brief description or purpose of the accounts. (Attach list if more space is necessary)	<ul style="list-style-type: none"> Concentration accounts Zero-balance disbursement accounts Zero-balance deposit accounts Zero-balance investment activity account Money market account Lockbox accounts-for collection of grant monies, taxes and fees 	<ul style="list-style-type: none"> General Fund Demand deposit account Payroll controlled disbursement account Accounts payable controlled disbursement account Food service demand deposit account Employee flexible spending demand deposit account 	No response	<ul style="list-style-type: none"> Depository-for deposit of cash and checks received at airport/city ticket offices Controlled disbursement accounts-for A/P, payroll, etc. Concentration account Lockbox accounts-to receive 3rd party payments Escrow accounts-for legal and voluntary escrow 	<ul style="list-style-type: none"> Operating account Controlled disbursement account Debt service account Payroll account Insurance accounts HUD accounts Lockbox accounts Special collection account 	<ul style="list-style-type: none"> Imprest accounts Debt service accounts Concentration account Controlled disbursement account Zero-balance disbursement accounts Zero-balance deposit accounts 	<ul style="list-style-type: none"> General banking services Depository & investment services Transfer/payment agent 	<ul style="list-style-type: none"> Operating account Payroll controlled disbursement account Accounts payable controlled disbursement account Lockbox accounts 	No response
2. Please check the following banking and/or cash-management services used by your city.	(X=service is used)								
Automated Sweep Accounts	X	X	X	X				X	
Lockbox	X	N/A	X (taxes)	X	X (Airport concessions and EMS collections)		X	X (Revenue processing)	X (Tax/other revenue collection)
ACH Payments	X	X (vendor ACH implementation in process)		X		X (Vendors, taxes, state comptroller)	X	X (Payments in lieu of checks)	X (Payment of some vendors)
Direct Deposit of Payroll	X	X	X	X	X	X	X	X	X
Controlled Disbursement-non-payroll		X	X	X	X	X	X	X	X

OPERATIONS & SYSTEMS Banking Services	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
Controlled Disbursement– payroll		X		X				X	X
Positive Pay	X	X	X	X	X	X			X
Automated Account Reconciliation	X	X	X	X		X			X
Zero Balance Accounts	X		X	X		X	X		X
Same Day Bank Reporting	X	X	X	X	X	X	X		X
Treasury Workstations (check modules or features used)	X	X	X	X	X	X	X	X	X
Wire Transfer	X	X	X	X	X	X	X	X	X
ACH Transfer	X	X	X	X		X	X	X	X
Stop Payment	X	X	X	X	X	X	X		X
Prior Day Balance Reporting	X	X	X	X	X	X	X		X
Prior Day Credits – (Prior Day Credit Report)	X	X		X	X	X	X		X
Prior Day Debit Detail	X	X	X	X	X	X	X		X
Prior Day Debit Summary	X	X	X	X	X	X	X		X
Current Day Reports (Specify)	X (Daily balance, detailed transactions)	X (Controlled disbursement & general fund accounts)	X	X (Current day BAI downloads)	X (Bank balance & detailed transactions)	X (Incoming EFT, controlled disbursement)	X (Controlled disbursement)		X (Detailed transactions)
Other	None	None	None	Foreign exchange, Debt & Investment, Cash accounting	None	Addenda Info	None	None	None

OPERATIONS & SYSTEMS <i>Banking Services</i>	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
3. How does your city pay for banking services? [Fees (F), Compensating Balances (C), Combination of both (B)]	C	B	B; pay fees and get earnings credit for any balances in accounts that are not swept into the overnight money market accounts; earnings credit rate is higher than the T-Bill rate.	F	C	F	C	C	B
4. How often does your city re-bid its banking services contract?	As considered necessary	Every 2-4 years	Every 2 years as required by law	Periodically (every 3 years)	Every 3-5 years	Every 4-6 years	Every 3-5 years	Yearly	Every 3-5 years
5. With how many banks does your city maintain account relations?	1 main depository; 1 safekeeping bank	1	1 main depository and 10 others for neighborhood deposits of food service and activity funds	4 major relationships; several hundred on depository services side	1 main depository and various others for services such as paying agent registrar, liquidity provider, and purchase card services	1	5	10	26

OPERATIONS & SYSTEMS Cash Forecasting	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
1. Are cash forecasts used to project cash needs, make borrowing decisions and develop investment strategies?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
2. If yes, please describe the process employed to prepare cash forecasts; include department with primary responsibility, how often forecasts are updated, analyzed and reconciled to actual activity.	F&A prepares a cash-flow forecast showing monthly cash projections to determine when borrowings will be required to cover shortages. IDMT also prepares cash forecasts matching investment security maturities to debt service and construction draw schedules.	Prepare 6-month forecast which is updated daily for actuals obtained via bank reporting software.	Controller prepares annual, monthly, and daily forecasts based on historical information adjusted by current projections	Cash management prepares 12- month rolling cash forecast on monthly basis; 4 months by day and 8 months by month; forecasts are updated and reconciled daily	A comprehensive cash flow analysis is used which pertains to revenues, expenditures and fund balances used to determine the character and volatility of each fund. This analysis assists the investment officers in developing investment strategies and ensuring sufficient cash balances for daily operations.	Prepared on a limited basis by treasury to set daily cash position; updated as needed and reconciled to actual daily; based on historical averages	Finance Department calculates daily cash position	N/A	Comptroller's office prepares annually and revises monthly
3. What software and or automated systems are used in developing, monitoring and analyzing cash forecasts?	Excel spreadsheets	Encore+ (cash-management software); Excel spreadsheets	Excel spreadsheets and bank balance information	Quantum treasury system; various spreadsheets and proprietary database modules	Excel and Eviews	Excel	Eview (investment system); Invision (Treasury Workstation)	N/A	No response
4. To what other automated systems within your city/company is the cash forecast system linked? (i.e. Financial Management/ Accounting, bank reporting system, etc.)	None	Bank reporting system used extensively to develop cash forecasts	None	Quantum Treasury system and accounting system	None	Chase Microlink	Invision (banking reporting)	N/A	None
5. Are separate cash forecasts prepared by the city controller and mayor's offices?	Yes	N/A	N/A	N/A	No; Office of Management and Budget prepares and coordinates forecasts for the 5-year	No; Revenue forecast prepared by Budget, to be reconciled to treasury	No	N/A	No

OPERATIONS & SYSTEMS Cash Forecasting	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
6. If so, are differences reconciled? Explain	No, but large differences are discussed.	N/A	N/A	N/A	Budget Projection Forecast. N/A	N/A	N/A	N/A	N/A

	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
1. How often is the investment report prepared for presentation to city council/board? (i.e. monthly, quarterly, etc.)	Quarterly	Quarterly report to school board	Quarterly	Monthly	Quarterly	Quarterly	Quarterly	N/A	No response
2. What dedicated, up-to-date software systems does your city/district use to track investments, debt, and banking activity?	<ul style="list-style-type: none"> The SunGard system is used to initiate investments Du Bois DBC Finance/ DBC Debt Management System tracks debt activity Chase Workspace Treasury Management System is used for banking transactions 	Bank of America's Encore and bank reporting software	No response	Quantum Treasury	Excel is currently being used, and we are in the process of implementing and testing SunGard APS2 investment software	Sympro	Bonedge, PC Invision, Evare	Only tracked through PeopleSoft accounting system; in process of developing new debt management system.	No response
3. Do transfers of monies between bank accounts or accounting funds require city council/board approval?	Not between bank accounts, but transfers between accounting funds require city council approval.	No	No	No	No; Between bank accounts, no City Council approval is required, however, authorization by City Council ordinance is required to approve transfers between funds.	No response	Yes, legislation is required	No, unless for appropriation change	No

OPERATIONS & SYSTEMS Investment & Debt Management	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
4. Please describe the process and requirements for borrowing cash to meet short-term cash requirements?	The City issues Tax and Revenue Anticipation Notes based upon F&A cash-flow projections.	\$20MM LOC with BOA can be exercised as needed	Not needed; would require board approval	Maintain sufficient cash balances to meet obligations without borrowing; Maintain a line of credit with financial institution if ever needed.	Maintain a money market mutual fund specifically for operations to ensure that short term cash needs are met.	Does not engage in short-term borrowing	Use repurchase agreements	Requires council approval	Does not borrow cash
5. How does your city/district ensure that investments mature on time to pay obligations such as debt service and construction draws as they come due?	Investment laddering	Time maturities to match obligation due dates; cash forecasting process facilitates this	Have debt service schedule monitored and maintained by Controller and Treasurer	Cash forecasting system which forecasts sources and uses of cash by day for 120 days is integrated with Quantum Treasury system which maintains investment activity (maturity dates)	Debt service funds are invested to debt service payment dates. The City also utilizes a Money Market Mutual fund to ensure availability of cash to accommodate debt service payments on commercial paper.	Cash flow schedules	Investment laddering	Most investments are short term	Cash forecasting process
6. During calendar year 2000, how much, on average, of your entity's idle cash was swept nightly into overnight short-term investments?	\$13.9 million on average per day	Less than 1%;	\$200,000 daily average	N/A	An Operations and a Debt Service Money Market Mutual Fund is utilized on a daily basis to ensure that no excess funds are left idle except for the amount required to accommodate the compensating balance.	No response	Approximately \$75-100 million	No response	96% during fiscal 2000

OPERATIONS & SYSTEMS Investment & Debt Management	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
7. What investment benchmarks are used to measure the city's/ districts/ company's investment portfolio performance? (i.e. U.S. Treasury bill, Lehman Brothers Index, etc.)	Merrill Lynch custom index; Lehman Brothers Government Bond Index	U.S. T-Bill	Tex-Pool, Lone Star Investment Pool, LOGIC, US T-Bill, Federated Investors, etc.	Bloomberg CP issuer rates (average 60 day benchmark)	1 year U.S. T-Bill	Constant maturity T-Bill	Merrill Lynch 1-3 yr	U.S. T-Bill	No response
8. Do you use an automated system to initiate investments, track performance, and obtain rate and market information?	Yes	No	No	Yes	No	Yes	No	No	Yes
9. If yes, please provide the system's name and an overview of its features, capabilities and/or modules you use.	Initiate investments using the SunGard system; Use Bloomberg for current market data/analysis	N/A	N/A	Bloomberg feeds into Quantum Treasury Workstation; purchase investments through Bloomberg	Upon completion of SunGard APS2 testing, will be capable of pricing securities online.	Bloomberg	Use Bloomberg for current market data/analysis	N/A	Comptroller's office uses an in-house system developed in consultation with State Street bank, its short-term asset custodian

OPERATIONS & SYSTEMS <i>Operating Cash Management</i>	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
Physical cash management	Cash disbursements for all funds are made from one central vendor and one central payroll account. Separate cash accounts are not maintained for each fund.	All funds except the food service fund and employee flexible spending monies are maintained in a single concentration account.	Each fund within the district (general fund, capital improvement fund, etc.) has a separate bank account. A vendor payment account is maintained and funded by the various funds' bank accounts as checks are cut on their behalf.	Each airport/city ticket agency has a separate depository account. Cash disbursements for all units are made from a single concentration account.	Cash disbursements for all funds are made from a single concentration account.	Cash disbursements for all funds are made from a single concentration account.	No response	Each accounting fund has a separate bank account and most have the ability to issue checks.	Cash disbursements for all funds are made from a single concentration account.
Recorded cash accountability	Achieved through accounting entries to the appropriate funds.	Achieved through accounting entries to the appropriate funds.	Achieved through separate accounts for each fund.	Achieved through accounting entries to the appropriate unit.	Achieved through accounting entries to the appropriate funds.	Achieved through accounting entries to the appropriate funds.	No response	Achieved through separate accounts for each fund.	Achieved through accounting entries to the appropriate funds.

INITIATIVES	Houston	Dallas ISD	Houston ISD	Continental Airlines	San Antonio	Austin	Atlanta	Pittsburgh	New York
<p>What initiatives, if any, are you currently working on to improve the overall performance and effectiveness of your cash and investment management processes?</p>	<p>The City is working to streamline processing of water bill payments made through online check services. Third-party processors will send payments via ACH to the bank where they will be credited to the City's account and uploaded to the City's accounts receivable system to credit customer accounts.</p>	<ul style="list-style-type: none"> • 100% electronic payroll for cost reduction • Vendor ACH payments for cost reduction • ACH travel reimbursements for cost reduction • Travel and entertainment procurement card for cost reduction • Cash-management module with new financial system to automate cash and investment journal entries for reporting efficiency 	<ul style="list-style-type: none"> • Integrating cash-management and treasury practices into ERP system 	<ul style="list-style-type: none"> • Cash forecasting for all international locations • Consolidating bank relationships in Europe and Latin America • Providing electronic payment platforms to international locations • Taking advantage of the Euro by maintaining a Euro pool in London and utilizing zero balance accounts in Euro countries 	<ul style="list-style-type: none"> • Currently testing and fine tuning a Buy/Sell Module which would enable the City to routinely examine the portfolio and take advantage of market movements. • Additionally, the City is continuously researching new investment instruments allowed by the Public Funds Investment Act, but not currently used by the City, to improve portfolio performance. 	<ul style="list-style-type: none"> • No response 	<ul style="list-style-type: none"> • Currently investigating automated systems for measuring performance and investment process. • New cash and investment management policies and procedures 	<ul style="list-style-type: none"> • New cash and investment management policies and procedures • New debt management policies and procedures 	<ul style="list-style-type: none"> • Increased use of ACH payment in lieu of checks • Increased use of controlled disbursement and positive pay • Increased use of ANSI-format electronic account analysis

7.0 BENCHMARKING SURVEY INSTRUMENT

The following survey is the peer city survey, which served as the basis for the school district and corporate surveys. Peer city survey questions were revised as appropriate. For example, references to city council were replaced with references to the school board or board of directors.

Cash Management Peer City Benchmark Survey

McConnell Jones Lanier & Murphy LLP is conducting a survey to assist one of our large governmental clients improve their cash-management functions. The cash-management process includes the system of controls over the collection, disbursement and use of cash to generate investment income or reduce interest costs. The goal of the survey is to identify best practices and benchmarks so that the cash-management process and related investment and debt-management practices can be performed more efficiently. Our client has chosen your city to participate as a peer city in this benchmarking survey. Your responses to the following questions will help with our study.

Please complete the survey questionnaire and mail, fax, or e-mail to the following address by May 14, 2001. If any requested information is contained on your city's web site please reference the specific section of the web site. Requested documents may also be e-mailed to:

Thomas Jones
McConnell Jones Lanier & Murphy LLP
11 Greenway Plaza, Suite 2902
Houston, TX 77046
Office: 713-622-7666 Fax: 713-622-7879 E-mail: tjones@mjlm.com

We appreciate your participation in this survey, and would be pleased to send to you a compilation of the survey results. No individual's name will be associated with any of the findings in our report.

Organization: _____
Contact: _____
Title: _____
Phone: _____
Fax: _____
E-mail: _____
Date: _____

Would you like a copy of the final survey results? Yes _____ No _____

Organization and Management

1. Does your city have a mayoral form of government with an elected city controller?

Yes _____ No _____

2. Please summarize the division of responsibilities between the mayor and controller with regard to cash and investment management activities.

3. What department(s) within your city has responsibility for the following functions:

Function	Department Responsible	Department Reports To: (Mayor, City Manager, Controller, etc.)
Budget		
Cash Forecasts		
Daily Cash Management		
Investment of Available Cash		
Debt Management		
Bank Reconciliations		
Certification that Cash is Available to Pay Obligations		
Cash Collection & Deposits		
Financing (Borrowing) Activities		
Banking Services Management		

4. What is the organizational structure and staffing within the area(s) identified in (3) above with primary responsibility for cash and investment management? (If available, please provide organizational chart.)

5. Please provide a matrix showing the qualifications and credentials of the staff listed in Item 4 above.

Job Title	Academic Credentials (BS, MBA, etc.)	Professional Certifications (CPA, CFA, etc.)	Years of Experience

Policies and Procedures

The following questions relate to internal policies and procedures governing cash and investment management practices

1. Does your city have a comprehensive cash-management policy?

Yes _____ Please provide copy
No _____

2. What is the legal basis for establishing departmental cash-management authority and responsibility?

City Charter _____
Code of Ordinances _____
State Law _____
Other _____

3. Does your city have policies governing the following activities: (if yes, please provide a copy of the policy. If no, please describe in an attachment how the activities are handled.)
 - a. Investment management, allowable investments, portfolio restrictions, etc?
Yes _____ No _____
 - b. Cash advances between accounting funds? Yes _____ No _____
 - c. Cash advances between bank accounts? Yes _____ No _____
 - d. Use of tax revenue and anticipation notes and/or availability of other procedures to provide for short-term cash-flow needs?
Yes _____ No _____
 - e. Maintaining cash levels in relationship to specific percentages of unreserved and/or reserved accounting fund balances? Yes _____ No _____
 - f. Covering cash shortfalls in the general accounting fund? Yes ___ No ___

4. Does your city maintain “rainy day” cash reserves in case of emergencies or cash shortages?

Yes ____ No _____. If yes, how is the reserve amount determined?

Operations and Systems

Banking Services

1. Please provide a list of the bank accounts used by your city and include a brief description or purpose of the accounts. (Attach list if more space is necessary.)

Account Name	Purpose

2. Please check the following banking and/or cash-management services used by your city.

- Automated Sweep Accounts (for investment purposes)
- Lockbox (Explain use: _____)
- ACH Payments (Explain use: _____)
- Direct Deposit of Payroll
- Controlled Disbursement – non payroll
- Controlled Disbursement – payroll
- Positive Pay
- Automated Account Reconciliation
- Zero Balanced Accounts
- Same Day Bank Reporting
- Treasury Workstations – check modules or features used
 - Wire Transfer
 - ACH Transfer
 - Stop Payment
 - Prior Day Balance Reporting
 - Prior Day Credits – (Prior Day Credit Report)
 - Prior Day Debit Detail
 - Prior Day Debit Summary
 - Current Day Reports (Specify _____)
 - _____
 - _____

3. How does your city pay for banking services?
 - Fees
 - Compensating Balances
 - Combination of both

4. How often does your city re-bid its banking services contract? _____

5. With how many banks does your city maintain account relations? _____

Cash Forecasting

1. Are cash forecasts used to project cash needs, make borrowing decisions and develop investment strategies? Yes___ No_____

If yes, please describe the process employed to prepare cash forecasts; include department with primary responsibility, how often forecasts are updated, analyzed and reconciled to actual activity.

2. What software and or automated systems are used in developing, monitoring and analyzing cash forecasts?

3. To what other automated systems within your city is the cash forecast system linked? (i.e. Financial Management/Accounting, bank reporting system, etc.) _____

4. Are separate cash forecasts prepared by the city controller and mayor's offices? _____
If so, are differences reconciled? Explain _____

Investment & Debt Management

1. Please provide a copy of the city's Investment Report(s) for the period January 1, through December 31, 2000.

2. How often is the investment report prepared for presentation to city council? (ie. Monthly, quarterly, etc.) _____

3. What dedicated, up-to-date software systems does your city use to track investments, debt, and banking activity.

4. Do transfers of monies between bank accounts or accounting funds require city council approval? Yes ___ No ___

Please explain _____

5. Please describe the process and requirements for borrowing cash to meet short-term cash requirements? _____

6. How does your city ensure that investments mature on time to pay obligations such as debt service and construction draws as they come due?

7. During calendar year 2000, how much, on average, of your city's idle cash was swept nightly into overnight short-term investments?

8. What investment benchmarks are used to measure the city's investment portfolio performance? (i.e. U.S. Treasury bill, Lehman Brothers Index, etc.) _____

9. Do you use an automated system to initiate investments, track performance, and obtain rate and market information? Yes ___ No ___

If yes, please provide the system's name and an overview of its features, capabilities and/or modules you use. _____

General

1. What initiatives, if any, are you currently working on to improve the overall performance and effectiveness of your cash and investment management processes?

Thank you for participating in our survey. Please contact Thomas Jones or Gilbert Hopkins at 713-622-7666 if you have any questions or comments regarding this survey.