CLERK & COMPTROLLER
PALM BEACH COUNTY
FINANCE DIVISION
INVESTMENTS DEPARTMENT AUDIT

SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

Division of Inspector General

Audit Services Unit

July 6, 2016

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The Honorable Sharon R. Bock, Esq.
Clerk & Comptroller

We conducted an audit of the Investments Department, which was included in the 2015-2016 audit plan.

The objectives were to identify the risks and vulnerabilities impacting the Investments Department processes, evaluate the overall effectiveness and efficiency and related internal controls to mitigate the risks, verify compliance with pertinent laws and regulations as well as established policies, and compare processes with accepted standards and best practices.

Our audit was neither designed nor intended to be a detailed study of every process, procedure, transaction or system in each area. Accordingly, the observations and recommendations included in this report are not all-inclusive.

Our audit disclosed that the Investments Department processes are generally effective and efficient and related internal controls mitigate risks in a generally satisfactory manner. The audit identified certain monitoring processes and procedures require enhancement to ensure compliance with the Florida Statutes, County Investment Policy, County ordinance, and departmental procedures. The processes and procedures requiring enhancement included: acknowledgement of newly established public depository accounts, competitive bidding, trade rationale documentation, and usage of compliance review checklists. Investment trades are not consistently recorded timely and sufficiently in the Advantage financial system and assigned system access authorities require revision.

We appreciate the cooperation of management and staff during the course of this audit.

Respectfully submitted,

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Inspector General
Clerk & Comptroller Office
Palm Beach County

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Executive Summary

An audit of the Investments Department was performed by the Clerk & Comptroller's Division of Inspector General. This regularly scheduled audit was included on the annual audit plan.

The Investments Department core responsibility is to actively manage the County's investment portfolio, which totaled $1.4 billion as of September 30, 2015. The Clerk's investment objectives, in order of priority, are: safety of taxpayer dollars, sufficient liquidity to meet County financial obligations, and earning the maximum investment income. During FY 2015, the portfolio earned $20.2 million in investment income.

The objectives were to: perform a risk assessment to identify risks and vulnerabilities impacting the Investments Department processes, evaluate the overall effectiveness and efficiency of the processes and related internal controls to mitigate the risks, verify compliance with pertinent laws and regulations as well as established policies, and compare processes with accepted standards and best practices.

The audit disclosed that the Investments Department processes are generally effective and efficient and related internal controls mitigate risks in a generally satisfactory manner. The audit identified certain monitoring processes and procedures require enhancement to ensure compliance with the Florida Statutes, County Investment Policy, County ordinance, and departmental procedures. The processes and procedures requiring enhancement included: acknowledgement of newly established public depository accounts, competitive bidding, trade rationale documentation, and usage of compliance review checklists. We also noted that investment trades are not consistently recorded timely and sufficiently in the Advantage financial system, with eight of twenty sampled investment trades posted from 21 to 48 days after execution. System access authorities assigned to employees require revision to ensure duties are properly segregated and privileges are granted only as required to perform their responsibilities. Finally, management should obtain and review annual reports issued by independent firms that provide an attestation of the adequacy of internal controls of entities serving as custodians of the County's investment securities.

The report contains four observations and eleven recommendations.

Table of Contents

Introduction 3

Overall Conclusion 3

Objectives, Scope and Methodology 3

Background 4

Observations & Recommendations 7

1. Opportunities exist to improve compliance monitoring, departmental procedures and related controls 7

2. Investment trades are not consistently recorded timely and sufficiently in the Advantage financial system 14

3. System access privileges and depository account authorities require revision 15

4. Obtain and review SSAE 16 reports for third-party service providers acting as custodians 17

Introduction

Overall Conclusion

The audit disclosed that the Investments Department processes are generally effective and efficient and related internal controls mitigate risks in a generally satisfactory manner. The Department's primary objective, safety of taxpayer dollars, has been consistently achieved for the investment portfolio that totaled $1.4 billion as of September 30, 2015. The Department continues to invest in assets that minimize volatility and preserve principal.

The audit identified certain monitoring processes and procedures require enhancement to ensure compliance with the Florida Statutes, County Investment Policy, County ordinance, and departmental procedures. The processes and procedures requiring enhancement included: acknowledgement of newly established public depository accounts, competitive bidding, trade rationale documentation, and usage of compliance review checklists. Investment trades are not consistently recorded timely and sufficiently in the Advantage financial system. System access authorities require revision to ensure duties are properly segregated and privileges are granted only as required to perform their responsibilities.

Objectives, Scope and Methodology

The Clerk's Audit Services Unit of the Division of Inspector General conducted an audit of the core functions within the Investments Department. This regularly scheduled audit was included on the annual audit plan.

The objectives were to: perform a risk assessment to identify risks and vulnerabilities impacting the Investment Department processes, evaluate the overall effectiveness and efficiency of the processes and related internal controls to mitigate the risks, verify compliance with pertinent laws and regulations as well as established policies, and compare processes with accepted standards and best practices.

In order to meet these objectives, we conducted interviews and reviewed departmental policies and procedures. We identified the pertinent Florida Statutes, Palm Beach County (PBC) ordinances and policies, and other relevant requirements. We performed a risk assessment of the Investments Department core functions by documenting workflows and activities, identifying key risks, and evaluating the adequacy of the internal control environment to mitigate the risks identified. Audit testing was designed for the risks representing higher vulnerabilities to the department and Clerk's organization.

Our scope included all key relevant Investments Department workflows and activities related. Testing performed included the period from October 1, 2014 through November 30, 2015. We selected fifteen investment purchases and five investment sales transactions and performed a variety of tests including but not limited to: compliance with requirements (e.g., Florida Statutes, County Investment Policy, County ordinances, and departmental policies), accuracy and timeliness of transaction posting, and adequacy of supporting documentation. We reviewed compliance monitoring and evaluation practices, including but not limited to required quarterly and annual reviews of broker/dealers. System access privileges were reviewed for the department's key applications.

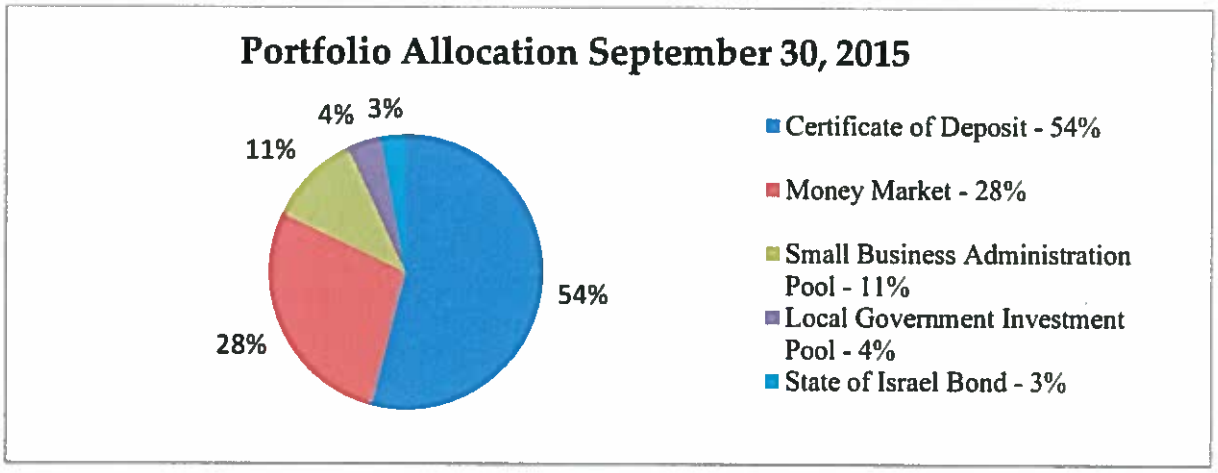
We performed other procedures that were deemed necessary under the circumstances. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Background

The Clerk serves as the Comptroller, Chief Financial Officer, Auditor and Treasurer for the County by monitoring the County budget, revenue, debt and spending. As the Treasurer, the Clerk's constitutional and statutory role is to invest the County funds until the money is needed to pay County expenses.

The Clerk's investment objectives, in order of priority, are: safety of taxpayer dollars, sufficient liquidity to meet County financial obligations, and earning the maximum investment income given prudent safety and liquidity objectives. The County's investment policy limits the portfolio to high quality fixed-income securities, bank deposits and cash equivalents. Investments in the stock market are not allowed.

The Investment Department actively manages the County's investment portfolio and monitors the financial markets daily to ensure the portfolio structure and strategy acts on opportunities to increase yield, while keeping safety and liquidity as the top priorities. In response to a continued historically low interest rate environment, the Department seeks to minimize volatility, preserve principal, minimize interest rate and price risk, which generates a predictable interest income stream. During FY 2015, the portfolio averaged $1.4 billion in size and earned $20.2 million in investment income. Certificates of deposits and money market accounts accounted for 82% of the portfolio composition as of September 30, 2015, as shown below.



The Clerk & Comptroller's Investments Department reported the following key performance measures for the two most recent fiscal years ending September 30.

Performance Measure	FYE 2014	FYE 2015
Investment Portfolio Book Value	$1,270,263,723	$1,368,802,182
Investment Income	$19.1 million	$20.2 million
% of Investment Performance	1.24%	1.43%
Effective Duration	.78 years	.40 years
Average Credit Rating	AA/Aa2/AA	AA+/Aa1/AA+

The Advantage financial system is used by the Department to record completed investment transactions. The Wells Fargo CEO Portal is used to review daily investment transactions. Investment performance analysis and reporting is provided through Clearwater Analytics. Quarterly investment reporting is provided to the County Investment Policy Committee (IPC). Also, monthly consolidated investment summary reports are made publicly available on the Clerk's website.

The Department has maintained the Accredited Investment Fiduciary designation and has earned the Centre for Fiduciary Excellence (CEFEX) certification for seven consecutive years, which signifies adherence to best practices in the industry and excellence in investment management and record keeping.

The Investments Department is supported by one fully dedicated staff employee under the direction of Felicia Landerman, Investments Manager.

Audit Team:
Charles Mansen, Senior Internal Auditor

Observations & Recommendations

The audit identified certain policies, procedures and practices that could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the observations and recommendations presented in this report may not be all-inclusive of areas where improvement may be needed.

1. Opportunities exist to improve compliance monitoring, departmental procedures and related controls.

Numerous compliance checklists and procedures exist that govern Investment Department processes. Certain monitoring processes and procedures require enhancement to ensure compliance with the Florida Statutes, County Code of Ordinances Section 2-41, County Investment Policy, and departmental procedures. Best practices in internal controls indicate that written procedures provide guidance to employees to ensure that processes are performed accurately and consistently in accordance with management's directives. In addition, written procedures help define responsibilities, pertinent laws and regulations, systems involved, and how they are updated and distributed.

The audit identified the following areas in which compliance monitoring, policies and procedures, and related controls require strengthening.

A. The Investment Department Compliance & Valuation procedure and various compliance checklists used to monitor compliance with the PBC County Investment Policy are not fully aligned with legal requirements, policies, and actual practices as detailed below.

   The Compliance and Evaluation procedure does not reflect that the Investment Department must verify (before executing any trades) that the Revenue Department has received a Florida Department of Financial Services (FDFS) Public Deposit Identification and Acknowledgement Form (Acknowledgement Form) before a qualified public depository (QPD) account can be opened. The Acknowledgement Form is signed by the QPD officer to attest that a specific depository account meets

the definition of a public deposit pursuant to section 280.02, Florida Statutes (F.S.) and will be classified on the QPD records as a collateralized public deposit and reported as such to the State Chief Financial Officer.

Audit testing of fifteen investment purchases found the Acknowledgement Form was not executed by the time the account was opened for seven of nine purchases and was not maintained as a record as required by section 280.17(1)(b), F.S. (Note: the other six purchases did not require the Acknowledgement Form).

- For one purchase of a $75 million money market account from Seacoast Bank on February 5, 2015, the Acknowledgement Form was signed by the QPD officer on May 28, 2015.
- For the purchase of two certificates of deposit, each for $50 million from Fifth Third Bank on February 19, 2015, the Acknowledgement Forms were signed by the QPD officer on May 29, 2015.
- For the remaining four purchases, the Acknowledgement Forms were not signed by the QPD officer until two to four days after opening the depository accounts.

Management stated that it is difficult to complete the Acknowledgement Form prior to account opening.

Recommendation:

A. Revise the Compliance and Valuation procedure to ensure compliance with Chapter 280 F.S. Qualified Public Depository requirements and align the procedure to the various compliance checklists used for monitoring investment trades for compliance, including timely completion, receipt, and filing of the FDFS Public Deposit Identification and Acknowledgment Form.

B. The Compliance and Valuation procedure requires the Compliance Officer to ensure that competitive bidding is used in investment trades, but does not provide sufficient guidance on when competitive bidding is required or exempt based on section 218.415(12), F.S. and the County Investment Policy.

- Section 218.415(12), F.S. states: "The investment policy shall require that the unit of local government's staff determine the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or

more optimal types of investment, and competitively bid the security in question when feasible and appropriate".

- The County Investment Policy Section IV states that "investment vehicles will be purchased via the competitive bidding process as appropriate to ensure the attainment of competitive prices and/or yields". In addition, Section VI.A.5. includes non-negotiable interest bearing time certificates of deposits or savings accounts in banks organized under the laws of this state as eligible securities.

Audit testing of fifteen investment purchases determined that competitive bidding was not performed for the following transactions:

- Four money market account purchases ranging from $5 million to $75 million.
- One certificate of deposit purchase of $25 million. We noted that competitive bids were obtained for two other certificates of deposit in our sample testing.
- One Treasury Bill purchase for the HUD Loan Repayment Program for $649,279.35. Management verbally informed us during the audit that short-term Treasuries were paying negative rates at the time and an order was placed with the broker to execute as soon as the rate turned positive, but this was not documented in the file.

The Investment Manager stated that competitive bids for investments in money market accounts are not necessary because they are routinely purchased for temporary transfers of funds.

Recommendations:

B. Revise procedures to clarify when competitive bidding is required or is exempt based on interpretation of section 218.415(12), F.S. and the County Investment Policy. Ensure competitive bidding is performed in accordance with these revised procedures.

C. The Compliance and Valuation procedure requires the Compliance Officer to ensure that the factors and reasoning behind trade selections are clearly documented.

Audit testing of twenty purchase and sale investment trades indicated that the factors and reasoning behind trade selections were not clearly documented for certain trades. It is important to document the rationale for each trade selection to ensure compliance with County Investment Policy (CIP) requirements. We noted one

certificate of deposit purchased for $25 million did not comply with the CIP minimum issuer rating standard.

Recommendation:

C. Revise procedures to more clearly define trade rationale documentation requirements and ensure trade selections are documented in accordance with procedures.

D. The Compliance and Valuation procedure requires the Compliance Officer to ensure that there is a proper trust receipt and trade confirmation from an authorized safekeeping agent.

Audit testing of fifteen purchases disclosed that all sampled investments were properly registered in the name of the County. Trust receipts for delivery to a third-party bank depository were not documented for two sampled investment purchases of Israeli bonds of $7.8 million and $14 million. Trust receipts are not applicable to money market accounts and certificates of deposits.

Management stated that trust receipts are not required by the County Investment Policy and are not obtained until post trade; therefore, the Compliance Officer cannot confirm receipt prior to a trade. Our interpretation of the County Investment Policy is that trust receipts should be required if delivery is not taken and a third-party trustee is receiving the investments or securities.

Recommendation:

D. Ensure that procedures more clearly define when trust receipts are required when deliveries of investments or securities are not taken, ensuring that proper interpretation has been obtained from the Investment Policy Committee. Ensure that compliance checklists and reviews document receipt of trust receipts or alternative confirmation of receipt from third-party bank depositories that are acting as custodians for County investments or securities.

E. The Compliance and Valuation procedure requires the Compliance Officer, prior to and following settlement of each trade, to review and sign off on each trade to ensure compliance with the County Investment Policy. Audit testing of twenty investment

transactions disclosed that improvements are needed to ensure that compliance reviews are conducted and documented before and after each investment trade, as detailed below.

- Compliance checklists for the twenty investments sampled did not consistently identify the compliance review completion date or contain the signature of the Compliance Officer, the Investment Manager, and the Investment Analyst. As a result, we could not confirm whether the compliance checklists were completed and reviewed before and after the investment trades. Management stated that the checklists were revised sometime around January 2015 to begin inclusion of the dates and signatures. Management stated that it is not feasible to fully complete the checklist prior to executing a trade as not all information may be available; procedures will be revised accordingly.

- Incorrect compliance review checklists were used for two sampled purchases to document compliance with the County Investment Policy and Florida Statutes, as detailed below:

  - An Interest-Bearing Time Deposits or Savings Accounts compliance checklist was used when purchasing a $25 million certificate of deposit from Sabadell Bank. By not using the correct Certificate of Deposit compliance checklist, Investment's compliance review did not include verification of criteria required by PBC Resolution R-2015-0359 including: non-negotiable interest, final maturity of ten years or less, Standard & Poor's or Moody's ratings, and issuer ratings. Our review found that the certificate of deposit purchased from Sabadell Bank did not comply with the revised County Investment Policy minimum issuer rating standard.

  - A Certificate of Deposit compliance checklist was used when purchasing two money market accounts from BankUnited, each for $105 million, instead of a Savings/Bank MM Accounts compliance checklist. The checklist did not identify the trade date or the trade amount.

  In addition, compliance checklists were not found in departmental records for three of five sale transactions sampled.

Recommendation:

E. Revise the Compliance and Valuation procedure and compliance checklists to provide guidance on use of various compliance checklists, required supporting documents, and adherence to County Investment Policy requirements.

F. Various other opportunities were noted in which policies, procedures, and practices could be strengthened, as highlighted below.

- No written policy and procedure was found for investment of excess funds in Local Government Investment Pools (LGIPs), such as the Florida Cooperative Liquid Assets Securities System (FLCLASS).

- Procedures and practices addressing security over confidential records should be strengthened. We noted Seacoast bank account and Sabadell bank account ownership documents with Clerk employee names, social security numbers, drivers' license numbers, and birth dates that were stored in an unlocked filing cabinet.

- Various procedures include references to tasks performed by a former Investment Specialist.

- The Selling Stock procedure incorrectly references "The Constitution of the State of Florida, Article VII, Section 1" for prohibition against holding stock of any corporation. The more applicable reference is "...Section 10 Pledging credit".

Recommendation:

F. Revise procedures and practices to:
   - address investment of excess funds in Local Government Investment Pools (LGIPs).
   - secure departmental documents that include confidential personal information.
   - eliminate references to prior employee names.
   - ensure accurate citation of applicable references.

Management Responses:

A. Acknowledgement Forms are maintained as records as required by F.S. 280.17(1)(b). We will obtain the forms at the time of the opening of an account, as required by the statute.

We will add a bullet to confirm receipt of the form to the Trade Review for Policy Compliance checklist. Note: In practice, confirming QPD status is completed prior to an account being opened, verified via the Alphabetical Roster of Florida QPD Banks with Average Financial Rankings published by the State.
Target Completion Date: 7/31/2016

B. There are certain circumstances when competitive bidding is not applicable. We will revise procedures to clarify when competitive bidding is required or is exempt based on interpretation of F.S. 218.415(12) and the County Investment Policy. All transactions were competitively bid when feasible and appropriate, as required by the statute.
Target Completion Date: 7/31/2016

C. All trades for marketable securities included trade rationales. Numerous money market transactions were included in the sample and do not require trade rationales, as it is implied that these accounts are maintained for liquidity, available to fund County obligations.
Target Completion Date: N/A

D. The County Investment Policy states that the County "may receive bank trust receipts in return for the investment of surplus funds in securities." The custodial bank, Wells Fargo, no longer issues bank trust receipts. In lieu of this, confirmation of delivery is made via Wells Fargo CEO. We will update procedures and the applicable checklists to include this step.
Target Completion Date: 7/31/2016

E. Redemption of money market accounts does not require completion of a checklist. We will implement this recommendation.
Target Completion Date: 7/31/2016

F. We will implement these recommendations.
Target Completion Date: 7/31/2016

2. Investment trades are not consistently recorded timely and sufficiently in the Advantage financial system.

Investment purchases and sales are not consistently recorded in the Advantage financial system on a timely basis or in a manner that enables sufficient identification of the transaction trail.

A. Our review of posting of wire transfer and journal entry transactions to Advantage found eight of twenty investment trades were not recorded timely. The investment trades dates were compared to the subsequent transaction posting dates in Advantage. Posting delays noted for the eight transactions ranged from 21 days to 48 days.

B. Certain investment trades are not posted to the Advantage financial system as individual investment trades. These trades are treated as net adjustments to Advantage investment accounts through a month-end Clearwater/Advantage reconciling journal entry (JVA) posted by the Financial Reporting Department, but the reconcilement does not include review of bank statements for investment accounts. When Financial Reporting identifies differences between Clearwater and Advantage due to unrecorded investment transactions, Financial Reporting must contact the Investment Manager who is responsible for reconciling Clearwater activity reports to individual investment bank account statements. The JVA and Clearwater/Advantage reconciliation is approved by the Investment Manager. There is a risk that offsetting trade transactions could be made during the month, but not detected and recorded in Advantage. Audit testing of twenty transactions disclosed that the journal entries for the five investment trades did not include sufficient information to trace the individual trades to the JVA postings in Advantage; however, the Investment Manager was able to provide the needed supporting Clearwater report detail. Also, our review of the December 2014 month-end JVA indicated that the Clearwater investment transaction detail changed after posting the JVA to Advantage, resulting in a $1,195,160.01 understatement of the investment general ledger account. This difference was corrected in the following month's reconciliation.

Recommendations:

A. Revise departmental procedures to require timely communication of investment trades and supporting documentation to the Financial Reporting Department to ensure timely recording of investment trades in the Advantage financial system.

B. Record investment trades in the Advantage financial system on a timely basis, with sufficient Clearwater detail reports and records attached to journal entries to maintain an audit trail for verification of posting to the general ledger. Consider reassigning the Investment Manager's Clearwater/Advantage investment bank statement review and approval responsibility in the reconciliation process to independent Finance staff to ensure proper segregation of duties.

Management Responses:

A. We will implement this recommendation.
Target Completion Date: 7/31/2016

B. Between detailed information reported in Clearwater and summary information recorded in Advantage, there is sufficient detail and records to maintain an audit trail for verification of posting to the general ledger.

The Investment Manager's Clearwater/Advantage investment bank statement and review and approval responsibility in the reconciliation process will be reassigned to the Financial Reporting Division.
Target Completion Date: 7/31/2016

3. System access privileges and depository account authorities require revision.

System access authorities assigned to management and employees require reevaluation and revision. Best practices for proper segregation of duties suggest that when a process is performed within a department, there should be another level of review and approval performed by a knowledgeable individual who is independent of the process. In addition, best practices suggest that access should be restricted to access required for business functions and processes, based on least-privilege, need-to-have, and need-to-know principles.

A. Our review of current employee access privileges for the Wells Fargo CEO Portal and Clearwater Analytics systems identified the following observations.

- Access privileges for a prior Investments Department employee had not been deactivated.
- The Compliance Officer, who has investment monitoring responsibility, and two Financial Reporting Department employees, who have investments reconciliation responsibilities, each have Edit Client Provided Data authority. This authority allows the user to provide or request investment data changes or updates that are manually initiated and not provided by direct investment data from Wells Fargo.
- The Clerk's Payroll Manager has Edit Client Provided Data authority with no defined business requirement for the authority.
- The Chief Finance Officer of Finance and a Finance Services Director each has Edit Client Provided Data authority. A determination should be made whether this access is required.

B. Clerk and Investment Department policies and procedures do not provide guidance for execution of authorization resolution documents with banking institutions. We noted two sample investment trades included account resolutions and signature cards that authorized sole signature authority for deposits and/or withdrawals of public funds by check or electronic transfer. The sole authority provides the Investment Manager with custody of the investment assets, which when combined with Clearwater reporting authority for transfers of investment funds to and from non-Wells Fargo accounts, results in improper segregation of duties.

Dual authority for key account changes and investment trades was not in place for the following banks.

- The Seacoast National Bank corporate authorization resolution document stated that each of the three authorized persons had unilateral authority to exercise banking powers.

- The Fifth Third Bank authorization resolution allowed each of the two authorized persons to designate any other person (whose identity and signature was provided) to conduct banking activity on their behalf.

Recommendations:

A. Review Wells Fargo CEO Portal and Clearwater Analytics system access privileges to ensure duties are properly segregated and access is limited to need-to-have and need-to-know principles. Ensure procedures require periodic review.

B. Establish a procedural requirement for dual signature or authorization on all investment bank accounts, money market accounts, and certificate of deposit accounts, including signature cards and bank resolutions. Ensure a level of supervisory approval authority at least one level above Investment staff is required for authorization of investment withdrawals by check, electronic transfers, or by other means.

Management Responses:

A. An annual review will be implemented and documented, as well as periodic reviews performed as staffing changes arise.
Target Completion Date: 7/31/2016

B. The banks have stated that they will not enforce a dual signature requirement. However, we will establish a procedure whereby banking privileges may be granted to staff only with the approval of two authorized individuals.

The procedure maintained in Revenue to access checks requires the approval of either the Director of Finance Services or the Revenue Manager. In addition, check stock access requires two staff logging the information. We will require the Director of Finance Services or the Revenue Manager to sign checks along with an authorized signer.
Target Completion Date: 7/31/2016

4. Obtain and review SSAE 16 reports for third-party service providers acting as custodians.

Best practices indicate Service Organization Controls Reports, referred to as Statement on Standards for Attestation Engagements or SSAE 16 reports, should be obtained and reviewed from entities that serve as custodians of investment securities and any other key third-party service providers. These SSAE 16 reports are prepared annually by an independent accounting firm and provide assurance to user organizations (Clerk & Comptroller office) of the adequacy of the service organization's internal controls.

An SSAE 16 report was obtained by Investments for Clearwater, which provides extensive reporting on investment activities. However, an SSAE 16 report was not obtained for the custodians of the investment securities. Wells Fargo Bank is the department's primary custodian, though other banks act as a custodian for money market accounts and certificates of deposit. For the bank custodians, the Investment Department's oversight and review is focused on ensuring that banks comply with Chapter 280 F.S. regarding qualified public depositories.

Recommendation:

A. Obtain and review SSAE 16 reports annually from external service providers and banks acting as custodians of investment securities. Ensure that any risks and control deficiencies identified in the reports are communicated to the Clerk's oversight committees (County Investment Policy Committee and Internal Investment Committee). Ensure that the control deficiencies are promptly addressed by the external service providers.

Management Response:

A. We will implement this recommendation.
   Target Completion Date: 7/31/2016