



Follow-up Review of Audit of Investment Program

Office of the County Auditor

Follow-up Review

Robert Melton, CPA, CIA, CFE, CIG
County Auditor

Review Conducted by:

Kathie-Ann Ulett, CPA, CFE, Deputy County Auditor
Jed Shank, CPA, CIA, CISA, CFE, CCA, Audit Manager
Ferris Ziadie, CPA, Audit Senior
Bianca Bezerra, Staff Auditor

Report No. 25-08
January 29, 2025



OFFICE OF THE COUNTY AUDITOR

115 S. Andrews Avenue, Room 520 • Fort Lauderdale, Florida 33301 • 954-357-7590 • FAX 954-357-7592

January 29, 2025

Honorable Mayor and Board of County Commissioners

We conducted a Follow-up Review of our Audit of Investment Program (Report No. 23-13). The objective of our review was to determine the implementation status of our previous recommendations.

We conclude that of the 13 recommendations in the original report, 10 recommendations were implemented, and 3 recommendations were partially implemented. We commend management for the implementation of our recommendations. The status of each of our recommendations is presented in this follow-up report.

Please be advised that the information presented herein is not considered an audit in accordance with Generally Accepted Governmental Auditing Standards. Had we conducted an audit, we may have identified additional findings and concerns.

We appreciate the cooperation and assistance provided by the Finance and Administrative Services Department throughout our review process.

Respectfully submitted,

A handwritten signature in blue ink that reads "Bob Melton".

Bob Melton
County Auditor

cc: Monica Cepero, County Administrator
Andrew Meyers, County Attorney
Dr. Kimm Campbell, Deputy County Administrator
Kevin Kelleher, Assistant County Administrator
George Tablack, Chief Financial Officer
Stephen Farmer, Deputy Chief Financial Officer

TABLE OF CONTENTS

IMPLEMENTATION STATUS SUMMARY	1
INTRODUCTION	4
Scope and Methodology.....	4
Overall Conclusion.....	4
OPPORTUNITIES FOR IMPROVEMENT	5
1. Investment Performance was Comparable to Peers; Peer Comparison and Benchmarking Should be Continuously Performed and Closely Analyzed.....	5
2. Vacant Positions Needed to be Filled Timely to Ensure Uninterrupted Operations and Adequate Internal Controls.....	6
3. Additional Enhancements Needed to be Made to the Investment Policy.....	6
4. Additional Enhancements Needed to be Made to Internal Policies and Procedures.	8
5. Investment Decisions and Strategy Documentation Needed to be Strengthened.	9
6. The Daily Reconciliation Process Needed to be Strengthened.....	10
7. Outside Employment Forms Needed to be Handled in Accordance With County Policy.....	10
MANAGEMENT’S RESPONSE	11

IMPLEMENTATION STATUS SUMMARY

Implementation Status of Previous Recommendations From the Audit of Investment Program

Rec. No.	PREVIOUS RECOMMENDATION	IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
1	We recommended management perform periodic peer comparisons of investment performance, analyze causative factors for variances, and implement any resulting identified measures that would enhance the County’s investment program.		✓		
2	We recommended management fill vacant positions as soon as possible to ensure operations remain uninterrupted and internal controls are present.		✓		
3.A	We recommended management strengthen the Broward County Investment Policy by incorporating the following enhancement: Section 22.82 – Performance Measurement: Addition of time requirements to perform benchmarking procedures and consider adding additional benchmarks, such as short-term and long-term to better represent the portfolio.	✓			
3.B	We recommended management strengthen the Broward County Investment Policy by incorporating the following enhancement: Section 22.82 – Performance Measurement: Establish performance benchmarks as relative guidelines rather than “minimum standards” and reduce requirements to “regularly exceed” the benchmarks.	✓			

Rec. No.	PREVIOUS RECOMMENDATION	IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
3.C	We recommended management strengthen the Broward County Investment Policy by incorporating the following enhancement: Section 22.83 – Prudence and Ethical Standards, Conflict of Interest: Implement monitoring procedures and require those employees responsible for investment activities to complete an annual conflict of interest disclosure.	✓			
3.D	We recommended management strengthen the Broward County Investment Policy by incorporating the following enhancement: Section 22.92 – Internal Controls: Provide for, at a minimum, the standards required by the State Statute.	✓			
3.E	We recommended management strengthen the Broward County Investment Policy by incorporating the following enhancement: Section 22.94 – Education Requirements: Specify the annual period (fiscal year, calendar year, etc.) for which an employee must complete educational requirements.	✓			
4.A	We recommended management enhance their policies and procedures to include key operational procedures and internal controls, including documentation requirements evidencing these activities, including but not limited to internal control documentation as required by Florida Statutes and the Investment Policy, including segregation of duties between job functions, and specific oversight details as to how the portfolio is monitored for performance and compliance, such as review and approval of investment activities, evidencing internal meetings, and utilization of weekly, monthly and quarterly reports.	✓			

Rec. No.	PREVIOUS RECOMMENDATION	IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
4.B	We recommended management enhance their policies and procedures to include key operational procedures and internal controls, including documentation requirements evidencing these activities, including but not limited to procedures to specify the minimum factors to review in considering investment decisions.	✓			
4.C	We recommended management enhance their policies and procedures to include key operational procedures and internal controls, including documentation requirements evidencing these activities, including but not limited to procedures for entering transactions into the system of record and the banking system.	✓			
5	We recommended management formally document the current investment strategies, including the justifications for the types and durations of investments chosen, to ensure the decisions made are properly supported and evidence of Policy compliance exists.		✓		
6	We recommended management strengthen the daily reconciliation process to ensure they are performed timely, and the review and approvals are performed timely, subsequent to the preparer completion and sign off, and no changes are made after the final review and approval.	✓			
7	We recommended management ensure that all outside employment forms are appropriately reviewed, signed by the immediate Division, Department, or Office Director, and filed with Human Resources, as required by County Policy.	✓			

INTRODUCTION

Scope and Methodology

The Office of the County Auditor conducts audits of Broward County's entities, programs, activities, and contractors to provide the Board of County Commissioners, Broward County's residents, County management, and other stakeholders, unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted a Follow-up Review of our Audit of Investment Program (Report No. 23-13) administered by the Finance and Administrative Services Department's Treasury Section. The objective of our review was to determine the implementation status of previous recommendations for improvement.

Please be advised that the information presented herein is not considered an audit in accordance with Generally Accepted Governmental Auditing Standards. Had we conducted an audit, we may have identified additional findings and concerns.

Our follow-up review included such tests of records and other review procedures, as we considered necessary in the circumstances. The follow-up testing was performed for the period of May 10, 2023, through October 31, 2024. However, transactions, processes, and situations reviewed were not limited by the review period.

Overall Conclusion

We conclude that of the 13 recommendations in the original report, 10 recommendations were implemented and 3 recommendations were partially implemented. We commend management for the implementation of our recommendations. The status of each of our recommendations is presented in this follow-up report.

OPPORTUNITIES FOR IMPROVEMENT

This section reports actions taken by management on the Opportunities for Improvement in our previous review. The issues and recommendations herein are those of the original review, followed by the status of the recommendations.

1. Investment Performance was Comparable to Peers; Peer Comparison and Benchmarking Should be Continuously Performed and Closely Analyzed.

During our prior audit, we verified Broward County investment performance was comparable to peers; however, variances needed to be further examined to identify improvements.

We noted that, although other entities have different philosophies and factors influencing investment performance, those variables are worthy to investigate if it means a potential for an improved performance. If one entity, is achieving better results, their underlying investment philosophies and approaches should be further examined to determine whether it would be beneficial to follow. Ultimately, Broward's peers are reasonable entities to compare as they all operate under the same parameters of the State Statutes. The State Statutes set the same restrictions on all Counties as to what can be invested. Therefore, differences in performance among peer entities should be examined.

We recommended management perform periodic peer comparisons of investment performance, analyze causative factors for variances, and implement any resulting identified measures that would enhance the County's investment program.

Implementation Status: Partially Implemented. Management obtains periodic peer comparisons of investment performance by providing information to and participating in the periodic peer performance analysis performed by Palm Beach County. However, there was a lack of analysis of causative factors for variances. Management enhanced portfolio analysis by including bank and money market balances to the Portfolio Summary in the issued Investment Reports.

2. Vacant Positions Needed to be Filled Timely to Ensure Uninterrupted Operations and Adequate Internal Controls.

During our prior audit, we noted that the FASD investment team staffing levels were not sufficient for the operation. The investment function had two of three positions vacant as of December 31, 2022 including the Finance Manager (FM), and one of two Investment Finance Coordinator (IFC) positions.

During the prior audit, we also evaluated the past three years of vacancies noting the following:

- One IFC position was vacant for 15 months during the 3-year period (July-Nov. 2020, Jan.-June 2022, and Sept.-Dec. 2022) and experienced substantial turnover having been filled by three individuals.
- In addition, both IFC positions were vacant, simultaneously, for seven months of the 3-year period (Aug.-Dec. 2021 and July-Aug. 2022).
- The FM position became vacant for 2 months upon a retirement.

During times of dual vacancies, the Deputy Chief Financial Officer (CFO) fulfilled the Finance Manager responsibilities, and the Acting Finance Manager fulfilled the IFC responsibilities.

We recommended management fill vacant positions as soon as possible to ensure operations remain uninterrupted and internal controls are present.

Status of Recommendation: Partially Implemented. Both Investment Coordinator positions have been consistently filled. However, the Finance Manager position remains open and the duties continue to be performed by the Deputy CFO.

3. Additional Enhancements Needed to be Made to the Investment Policy.

During our prior audit, we noted that the Broward County Investment Policy should be enhanced to strengthen certain requirements to ensure the County's investment objectives and goals were met. We identified the following sections that should be strengthened:

- A. Section 22.82 – Performance Measurement. The Policy did not list a time requirement for how often benchmarking should be performed and provided for only one benchmark, the Bank of America Merrill Lynch 1-3 Year Treasury & Agency Index. We performed benchmarking procedures for 5 comparable Counties noting they included time

requirements (such as monthly/quarterly/annually) and short-term and long-term benchmarks.

- B. Section 22.82 – Performance Measurement. The policy provided overly ambitious requirements to exceed the benchmark. It stated “The Investment Portfolio **should regularly exceed** the average return on the Bank of America Merrill Lynch 1-3 year Treasury & Agency Index” and that “**This index...constitutes a minimum standard for the Investment Portfolio’s rate of return**” [emphasis added].
- C. Section 22.83 – Prudence and Ethical Standards, Conflict of Interest. The Policy provided guidance on personal business activity that could conflict with proper execution of the investment program or impair employees ability to make impartial business decisions. The Policy required disclosure of such interest in accordance with defined materiality thresholds, but did not provide for periodic recurring (such as annual) disclosure requirements or other monitoring criteria for compliance or potential conflicts that may occur.
- D. Section 22.92 – Internal Controls. The Policy language needed to be strengthened to provide internal control procedural documentation as required by the State Statute.
- E. Section 22.94 – Education Requirements. The Policy did not specify the type of annual period (fiscal year, calendar year, etc.) for employee compliance with educational requirements.

We recommended management strengthen the Broward County Investment Policy by incorporating the following enhancements:

- A. Section 22.82 – Performance Measurement: Addition of time requirements to perform benchmarking procedures and consider adding additional benchmarks, such as short-term and long-term to better represent the portfolio.
- B. Section 22.82 – Performance Measurement: Establish performance benchmarks as relative guidelines rather than “minimum standards” and reduce requirements to “regularly exceed” the benchmarks.
- C. Section 22.83 – Prudence and Ethical Standards, Conflict of Interest: Implement monitoring procedures and require those employees responsible for investment activities to complete an annual conflict of interest disclosure.
- D. Section 22.92 – Internal Controls: Provide for, at a minimum, the standards required by the State Statute.

- E. Section 22.94 – Education Requirements: Specify the annual period (fiscal year, calendar year, etc.) for which an employee must complete educational requirements.

Implementation Status:

- A. Implemented.
- B. Implemented.
- C. Implemented.
- D. Implemented.
- E. Implemented.

4. Additional Enhancements Needed to be Made to Internal Policies and Procedures.

During our prior audit, we noted that internal policies and procedures over the investment program should be enhanced to incorporate key functions performed by the Treasury Section, including the system of internal controls in compliance with the County Investment Policy and State Statute. We reviewed three procedural documents, which included various procedures to perform investment purchases, cash flow analysis, investment portfolio monitoring, and reporting. While these procedures provided for several key functions, they were not specific enough to provide appropriate guidance and/or did not incorporate all of the key processes and internal controls performed by the Treasury Section. Specifically, we noted:

- A. The procedures lacked internal control documentation which is required by Florida Statutes and the Investment Policy. These include segregation of duties between job functions, and specific oversight details as to how the portfolio is monitored for performance and compliance, such as review and approval of investment activities, evidencing internal meetings, and utilization of weekly, monthly and quarterly reports.
- B. The procedures did not specify the minimum factors to review in considering investment decisions such as how investment needs are identified, cash flow forecasting, and other factors considered, which influence the decisions for the investment types and durations purchased.
- C. The procedures did not include details as to how transactions are entered into the system of record or how they are entered into the banking system to provide notification of incoming transactions.

We recommended management enhance their policies and procedures to include key operational procedures and internal controls, including documentation requirements evidencing these activities, including but not limited to:

- A. Internal control documentation as required by Florida Statutes and the Investment Policy, including segregation of duties between job functions, and specific oversight details as to how the portfolio is monitored for performance and compliance, such as review and approval of investment activities, evidencing internal meetings, and utilization of weekly, monthly and quarterly reports.
- B. Procedures to specify the minimum factors to review in considering investment decisions.
- C. Procedures for entering transactions into the system of record and the banking system.

Implementation Status:

- A. **Implemented.**
- B. **Implemented.**
- C. **Implemented.**

5. Investment Decisions and Strategy Documentation Needed to be Strengthened.

During our prior audit, we identified a lack of documentation supporting investment decisions such as the current investment strategy, including the durations and investment types chosen for purchases. We reviewed a sample of 30 investment purchases and were unable to obtain any supporting documentation as to why the investment type and duration were chosen and if it complied with the Policy portfolio maturity limitations and diversification requirements at the time of purchase. Per management, several factors were considered in the investment decisions made, including market conditions, availability of securities, portfolio composition, current cash needs and forecasting, and any other relevant factors at the time of purchase. However, these factors and investing decisions were not formally documented.

We recommended management formally document the current investment strategies, including the justifications for the types and durations of investments chosen, to ensure the decisions made are properly supported and evidence of Policy compliance exists.

Status of Recommendation: Partially Implemented. Management conducts and retains notes for weekly Treasury Group Staff Meetings. These meetings include qualitative and quantitative financial and capital market related information and cash flow considerations that, according to

management, are used as background and support for contemplations of investment strategies during staff meetings. There are also weekly, monthly, and quarterly reporting requirements that establish oversight and review of investment activities. However, there is no formally documented rationale for the current investment strategies, including any justifications for the types and durations of investments chosen.

6. The Daily Reconciliation Process Needed to be Strengthened.

During our prior audit, we identified that seven of eight (87%) daily reconciliations were not performed timely or reviewed and approved appropriately.

We recommended management strengthen the daily reconciliation process to ensure they are performed timely, and the review and approvals are performed timely, subsequent to the preparer completion and sign off, and no changes are made after the final review and approval.

Status of Recommendation: Implemented.

7. Outside Employment Forms Needed to be Handled in Accordance With County Policy.

During our prior audit, we reviewed two outside employment forms, representing 100% of the investment section staff at the time of the audit. We noted both forms were not signed by the Director, and one form was not retained in the Human Resources personnel file, as required by County Policy. It was obtained directly from the employee.

We recommended management ensure that all outside employment forms are appropriately reviewed, signed by the immediate Division, Department, or Office Director, and filed with Human Resources, as required by County Policy.

Status of Recommendation: Implemented.

MANAGEMENT'S RESPONSE




KEVIN KELLEHER, Assistant County Administrator
115 S. Andrews Avenue, Room 409 • Fort Lauderdale, Florida 33301 • 954-357-7320 • FAX 954-357-7360

MEMORANDUM

DATE: January 29, 2025

TO: Robert Melton, CPA, CIA, CFE, CIG
County Auditor

FROM: Kevin B. Kelleher 
Assistant County Administrator

RE: **Management Response to the Office of County Auditor's Follow-up Review of the Audit of the Investment Program**

The Finance and Administrative Services Department (FASD) has reviewed the Office of the County Auditor's Follow-up Review of the Audit of Investment Program and submits the following as Management's response.

In summary, Management concurs with the Audit report conclusion that the County's Investment Policy is adequate and reasonable and that internal controls over the investment program are adequate to safeguard the County's investment assets. FASD is always interested in any potential enhancements to policy and procedures that support the primary goals of the County's investment portfolio.

The purpose of the follow-up review was to determine the status of the 13 recommendations from the original report, dated May 9, 2023. Your audit team concluded that ten recommendations were fully implemented, while in the opinion of the audit team, three recommendations remained partially implemented.

As of September 30, 2024, the County's Investment Portfolio consisted of approximately \$6.2 billion in fixed income securities, following the guidance of Florida State Statutes, County Policy and industry best practices. Investment strategy for the portfolio adheres to the mandates of Safety, Liquidity and Yield.

Enclosed below please find detailed responses to each of the three partially implemented recommendations:

Opportunity for Improvement 1: Investment Performance is Comparable to Peers; Peer Comparison and Benchmarking Should be Continuously Performed and Closely Analyzed.

Recommendation: *“We recommend management perform periodic peer comparisons of investment performance, analyze causative factors for variances, and implement any resulting identified measures that would enhance the County’s investment program”*

Implementation Status: Partially Implemented – *“Management obtains periodic peer comparisons of investment performance by providing information to and participating in the periodic peer performance analysis performed by Palm Beach County. However, there was a lack of analysis of causative factors for variances. Management enhanced portfolio analysis by including bank and money market balances to the Portfolio Summary in the issued Investment Reports.”*

Response: Management currently reviews comparative data from various counties on a periodic basis (based on availability) and participates in informal surveys/communication with peer counties. However, Management does not believe that the yields produced by one municipality is necessarily comparable to or the right fit for another.

There can be vast differences in risk tolerance, policies, pool participant needs, views on market direction, strategy, etc. As an example, Miami-Dade County adheres to a strategy of very short-term investing, with 90% of investment maturing in less than a year. This strategy is very favorable based on the current inverted yield curve, but much less so during normal market conditions. Palm Beach County changed their philosophy in recent years from a more aggressive “active trading” and longer-term investment strategies (as noted in Office of the County Auditor Review of Broward County’s Investment Process Report dated January 22, 2010) to one where 98% of their investments are either held in time deposit securities at various banks or Money Market Funds. There is no industry standard nor is there a particular “perfect” strategy; each strategy performs differently under differing market conditions.

To address this matter, on a quarterly basis, management will review available peer reports to monitor portfolio allocation, performance, and duration of comparable counties.

Opportunity for Improvement 2: Vacant Positions Should be Filled Timely to Ensure Uninterrupted Operations and Adequate Internal Controls.

Recommendation: *“We recommend management fill vacant positions as soon as possible to ensure non-interruption of business processes, adequate segregation of duties and effective internal controls are present.”*

January 29, 2025
Robert Melton, County Auditor
Management Response to Follow-up Review of
Investment Program

Implementation Status: Partially Implemented – *“Both Investment Coordinator positions have been consistently filled. The Finance Manager position remains open, and the duties continue to be performed by the Deputy Chief Financial Officer.”*

Response: Management believes in hiring and retaining the most qualified and competent staff for these very important responsibilities. FASD has traditionally been fully staffed, subject to normal attrition. However, Management has had significant challenges in the last five years.

During this period, Management has reviewed 258 applicants, of which less than 10% met minimum qualifications and experience levels to even be called in for an interview. Recruitment efforts continue for the Finance Manager position. **All job responsibilities are being met throughout this period, despite vacancies.** Management will continue to recruit and train staff for these critical positions per past practice; standards and quality of work will never be compromised.

Opportunity for Improvement 5: Investment Decisions and Strategy Documentation Should be Strengthened.

Recommendation: *“We recommend management formally document the current investment strategies, including the justifications for the types and durations of investments chosen, to ensure the decisions made are properly supported and evidence of Policy compliance exists.”*

Implementation Status: Partially Implemented – *“Management conducts and retains notes for weekly Treasury Group Staff Meetings. These meetings include qualitative and quantitative financial and capital market related information and cash flow considerations that, according to management, are used as background and support for contemplations of investment strategies during staff meetings. It was also noted that there are weekly, monthly, and quarterly reporting requirements that establish oversight and review of investment activities. However, there is no formally documented rationale for the current investment strategies, including any justifications for the types and durations of investments chosen.”*

Response: Management believes there are various mechanisms utilized by the County documenting how investment choices are determined. The weekly report contains a schedule that compares the County’s portfolio to the investment policy to ensure the portfolio is in compliance with maturity limitations and diversification requirements. Management also compiles a packet for each investment made that encompasses competitive bids among vetted brokers. The monthly report shows the distribution of investments by dealer, highlighting the County’s diversification of brokers and the reinforcement of competitive bidding. Recording justifications for every investment placed and formally documenting the investment strategy based upon the cash flow, market

January 29, 2025
Robert Melton, County Auditor
Management Response to Follow-up Review of
Investment Program

conditions, portfolio composition, and maturity schedule at the point in time of investment would not be deemed valuable to management for future investment strategy decisions as these factors rarely (if ever) align consistently enough to warrant historical reference to past investment decisions. Capturing further details of conditions impacting investment decisioning would be impractical and add little value. Market conditions constantly change, and no situation would necessarily warrant similar actions. Unfortunately, this report fails to recognize key factors such as the real-time decisioning involved with this process and availability of securities.

Thank you for the opportunity to respond and provide Management's comments to the Audit. If there are any addition, deletions/omissions, or other changes or modifications to Management's response, please provide us the opportunity to review prior to issuance. Should you have any questions, please do not hesitate to contact me.

c: Monica Cepero, County Administrator
Dr. Kimm Campbell, Deputy County Administrator
George Tablack, Chief Financial Officer
Stephen Farmer, Deputy Chief Financial Officer
Kathi-Ann Ulett, Deputy County Auditor