



**Internal Audit Committee of
Brevard County, Florida**

**Internal Audit of
Cash Management and Investments**

**Prepared By:
Internal Auditors**



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August 7, 2024

The Audit Committee of
Brevard County, Florida
2725 Judge Fran Jamieson Way
Viera, Florida 32940-6699

Pursuant to the approved 2023/2024 internal audit plan, we hereby submit our internal audit of cash management and investments. We will be presenting this report to the Audit Committee at the next scheduled meeting on August 21, 2024.

Our report is organized in the following sections:

Executive Summary	This provides a summary of the observations related to our internal audit of cash management and investments.
Background	This provides an overview of the cash management and investments functions.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of our approach.
Observations Matrix	This section provides the results of our internal audit procedures, including our recommended actions and management's responses.

We would like to thank all those involved in assisting the Internal Auditors in connection with the internal audit of cash management and investments.

Respectfully Submitted,

Carr, Riggs & Ingram, L.L.C.

INTERNAL AUDITORS

Executive Summary

Overview

As of September 30, 2023, the audited financial statements show that the County's primary government has cash and cash equivalents of \$950.9 million and the County's component units have cash and cash equivalents of \$23.6 million. The County defines cash and cash equivalents as the cash from funds pooled together for investment purposes with an original maturity of 3 months or less. Additionally, the component units have \$351,840 in non-pooled investments.

Objective

The primary objective was to assess whether the system of internal controls over the cash management and investments function is adequate and appropriate for promoting and encouraging consistent application of management's objectives for compliance with policies and procedures, as applicable.

Observations

During the course of our work, we discussed any identified observations with management. Our observations and recommendations for improving controls and operations are described in detail in the Observations Matrix included in this report. A summary of observations is identified and their relative risk rating is provided below.

Observation ratings are a subjective evaluation of the severity of the concern and the potential impact on the operations. An observation rating of "High" represents an issue of immediate concern and could cause significant operational issues if not addressed soon. A "Moderate" rating is an issue that may also cause operational issues and does not require immediate attention but should be addressed as soon as possible. Observations given a "Low" rating could escalate into operational issues but can be addressed through the normal course of conducting business.

Observation	Risk Rating
1. Investment Committee Minutes - the minutes did not notate whether any committee members were absent from the meeting.	Low
2. Investment Policy Updates – certain policy provisions related to investments should be updated.	Low

Background

Overview

The following relevant notes were excerpted from the *Notes to Financial Statements, September 30, 2023 from the Annual Comprehensive Financial Report 2023*:

L. Cash and Cash Equivalents

Cash and cash equivalents represents the cash from funds pooled together for investment purposes. All participating funds in the investment pool have the ability to deposit and withdraw cash as if they were demand deposit accounts and therefore represents their equity in the investment pool. Non-pooled investments with original maturities of three months or less are also considered to be cash equivalents for the statement of cash flows.

M. Investments

Investments include non-pooled investments and certificates of deposit with original maturities of three months or greater. Investments are valued at fair value or amortized cost. Investments, and income from investments owned by individual funds, are recorded in the respective funds. The County maintains a consolidated account to maximize investment yields. Investment income, resulting from investments within the consolidated account, is allocated based on the cash balances for the respective funds.

- 3. Cash** - *Monies available within various funds were consolidated for investment purposes. The amount of public funds invested and types of securities managed are discussed in Note 5. Substantially, all operating cash at September 30, 2023 was invested utilizing the pooled investment concept. Interest earned was allocated to the various funds based on their average cash balance within the consolidated account. The average monthly interest rates on investments held by the County, in the pooled account, ranged from 2.19% to 4.15%.*
- 4. Investments** - *The investment program is established in accordance with the County's investment policy, pertinent bond resolutions and Sections 125.01 and 218.415, Florida Statutes. County Ordinance 18-11 permits investing in the State Board of Administration, State of Florida, direct obligations of the United States Government, obligations of the different agencies of the Federal Government, Corporate Notes, Commercial Paper, Municipal Bonds, Intergovernmental Investment Pools, Supranationals, Asset-Backed Securities, Multi-Asset Class Portfolio Investments (including both Domestic and International Equities, Emerging Market Debt, Real Estate Investment Trusts-REITS, and Treasury Inflation Protected Securities-TIPS), Registered Investment Companies (Mutual Funds) and time deposits or savings accounts of financial institutions under Federal and State regulation. Obligations of the different agencies of the Federal Government include fixed rate mortgage-backed securities. The investing of public funds with the State Board of Administration (SBA) - Local Government Surplus Funds Trust Fund (Florida Prime) - is governed by Section 218.407, Florida Statutes.*

The SBA is under the regulatory oversight of the State of Florida. This investment pool consists largely of Bank Instruments, Asset-Backed Securities and Commercial Paper. The SBA's Florida Prime balances are measured at amortized cost. The weighted average days to maturity of Florida Prime was 35 days, as of September 30, 2023. On September 30, 2023, the County had \$134,131,428 invested in Florida Prime.

Background - continued

The County has invested funds in four other Local Government Investment Pools (LGIP); the Florida Cooperative Liquid Assets Securities System (FLCLASS), the Florida Fixed Income Trust (FLFIT), the Florida Surplus Asset Fund Trust (FLSAFE) and the Florida Public Assets for Liquidity Management (FLPALM). These LGIPs were created as public entity investment trusts organized under the laws of the State of Florida, Section 163.01, Florida Statutes. FLCLASS and FLFIT balances are measured at fair value. FLSAFE and FLPALM balances are measured at amortized cost. At September 30, 2023, the County had invested \$138,149,557 in FLFIT with a weighted average maturity of 23 days; \$135,369,201 in FLPALM with a weighted average maturity of 44 days; \$6,537,170 in FLCLASS with a weighted average maturity of 42 days; and \$6,379,528 in FLSAFE with a weighted average maturity of 45 days. The LGIP's have all established policies and guidelines regarding participant transactions and the authority for the Trustees to limit or restrict withdrawals from, or to impose penalties for early withdrawal, within their respective LGIP's. As of September 30, 2023, there were no redemption fees, maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

PFM Asset Management LLC (PFM) is the firm that provides Investment Management Services for the County. On August 4, 2009, the Board of County Commissioners (BOCC) had executed an agreement with PFM. On July 12, 2016, the agreement with PFM for Investment Management Services was renewed for the final term of one year, commencing September 1, 2016, and terminating on August 31, 2017. With the approval of the BOCC, County staff issued a new Request for Proposals for Investment Advisory Services and the establishment of a Selection and Negotiating Committee to review, score, rank, negotiate and select the firm with whom to enter into a new agreement. The term of the agreement was for five (5) years, with the option to renew for up to three (3) additional one (1) year periods. BOCC entered into this new five-year agreement with PFM beginning on December 15, 2017, and ending on December 14, 2022. PFM is currently in the second renewal term, continuing through December 14, 2024.

The scope of PFM services includes the following excerpted from the agreement dated 12/15/2017:

PFM will provide investment management of the Initial Funds and such other funds as the COUNTY may from time to time designate by written notice to PFM (collectively the "Long-Term Core Funds"). In connection therewith, PFM will provide investment research and supervision of the COUNTY's Long-Term Core Funds and conduct a continuous program of investment, evaluation and, when appropriate, sale and reinvestment of the COUNTY's Long-Term Core Funds assets. PFM shall continuously monitor investment opportunities and evaluate investments of the COUNTY's Long-Term Core Funds. PFM shall furnish the COUNTY with statistical information and reports with respect to investments of the Long-Term Core Funds. PFM shall provide the County Finance Department and the County Manager's Office monthly reports detailing the "Long Term Core Investment" activity, weighted average maturity, accrued interest by investment type, rating of investment by Standard & Poor's and Moody's. PFM shall also provide monthly reports including both the "Short Term" and "Long Term" portfolio composition showing the diversity of investments and compliance with applicable investment policies of the County and State of Florida Statutes. PFM will prepare and present Quarterly and an Annual Investment report which shall include both the "Short Term I Bond Proceeds" and "Long Term" portfolio to the County's Investment Committee and to the County Commission. PFM shall place all orders with brokers or dealers

Background - continued

recommended by PFM and/or the COUNTY, and to that end PFM is authorized as agent of the COUNTY to give instructions to the depository designated by the COUNTY as its custodian (the "Custodian") as to deliveries of securities and payments of cash for the account of the County.

In connection with the selection of such brokers and dealers and the placing of such orders, PFM is directed to seek for the COUNTY the most favorable execution and price, the determination of which may take into account, subject to any applicable laws, rules and regulations, whether statistical, research and other information or services have been or will be furnished to PFM by such brokers and dealers. The Custodian shall have custody of cash, assets and securities of the COUNTY. PFM shall not take possession of or act as custodian for the cash, securities or other assets in the Long-Term Core Funds and shall have no responsibility in connection therewith. Authorized investments shall include only those investments, which are currently authorized by the State of Florida Statutes, bond covenants, Board policy, and County Ordinances.

PFM shall be entitled to rely upon the COUNTY's written advice with respect to anticipated drawdowns of Long-Term Core Funds. PFM will observe the instructions of the COUNTY with respect to broker/dealers who are approved to execute transactions involving the COUNTY's Long-Term Core Funds and in the absence of such instructions will engage broker/dealers who PFM reasonably believes to be reputable, qualified and financially sound. PFM shall work with County staff in developing an annual cash flow projection in determining the funds and source of funds available for Long Term Core Investments. PFM will serve as a general resource to County staff on financial market information, providing advice and training regarding fixed income securities, investments, and treasury operations.

The cash management and investments function is the responsibility of County Finance. The function is made up of individuals who are responsible for cash management and investments - recording and reconciling investment transactions on a daily, weekly, monthly, quarterly and annual basis.

Staffing

Key personnel from County Finance that were involved in our engagement included:

Title
County Finance Director
Assistant County Finance Director
Accountant IV

Objectives and Approach

Objectives

The primary objective was to assess whether the system of internal controls over cash management and investments is adequate and appropriate for promoting and encouraging consistent application of management's objectives for compliance with policies and procedures and related internal controls. Our procedures include evaluating the efficiency and effectiveness of the policies and procedures related to the solicitation of the investment advisor. It will also include investment policies, procedures, and internal controls, such as the segregation of duties and user access to minimize the risk of fraud, misappropriations, or noncompliance.

Approach

Our approach consisted of three phases:

Understanding and Documentation of the Process

During the first phase, we held an entrance conference with the Assistant Finance Director to discuss the scope and objectives of the audit work, obtained preliminary data, and established working arrangements. We reviewed *BCC-49 – Investment Policy, Ordinance 2018-11 – Permitted Investments, and Internal Controls and Operational Procedures Manual for Investments* and applicable State Statutes and other resources related to cash management and investments. We conducted interviews with responsible personnel from County Finance related to cash management and investments and documented their respective roles in the processes. We updated our understanding of the cash management and investments process and relevant controls.

Detailed Testing

The purpose of this phase was performance of testing procedures based on our understanding of the cash management and investment function, compliance with *BCC-49 – Investment Policy, Ordinance 2018-11 – Permitted Investments, and Internal Controls and Operational Procedures Manual for Investments* and applicable State Statutes. Our procedures included interviewing relevant personnel and testing individual transactions.

We tested the procurement of the current investment advisor from the initial competitive solicitation to contract execution – July 2017 through December 2017 which included the following:

1. Obtained and reviewed the Request for Proposal (RFP) and related solicitation documents and performed the following:
 - a. Verified that the RFP included all necessary sections such as the scope of work, deliverables, terms and condition, and evaluation methodology.
 - b. Determined that the RFP was issued/advertised at least 21 days before the submission deadline in accordance with BCC-25, Section III (I).

Objectives and Approach - continued

2. Obtained documentation related to the selection process of the County's Investment Advisor, and performed the following:
 - a. Evaluated the bid tabulation to validate that at minimum of three (3) qualified banks and/or approved brokers/dealers provided bids/offers in accordance to BCC-26, section III (C)(3).
 - b. Reviewed the process used to evaluate the vendor proposal and verify that there is evidence of scoring or ranking of proposals based on the established criteria.
 - c. Identified the members of the evaluation committee who possess the necessary skills or background and verify if there was representation from the finance department.
3. Obtained contract awarded and performed the following procedures:
 - a. Reviewed the selected bid submission and assessed whether the selected vendor met the mandatory responsive requirement specified in the RFP. Determined that the bid submission included the following:
 - Signed Proposal Invitation/Proposer Acknowledgement
 - Copy of a license showing current registration under the Investment Advisers Act of 1940 with the U.S. Securities and Exchange Commission
 - Proof of current registration to conduct business in the State of Florida
 - Signed Indemnification and Insurance Form
 - Signed Drug Free Workplace Certification Form (if compliant)
 - b. Verified that the contract award aligned with the terms and conditions outlined in the RFP.
 - c. Determined that any negotiated or modifications to the contract were justified and documented appropriately.
 - d. Conducted a search to determine that none of the commissioners during the time of the RFP Process and approval of the award constituted a related party to PFM.

Our testing period for cash management and investments included July 2023 through May 2024 to test compliance and internal controls as follows:

1. CRI randomly selected a sample of daily cash management activities (Jul 10th, 2023; Aug 14th, 2023; Oct. 23rd, 2023; Dec 6th, 2023; Jan 26th, 2024; Feb 8th, 2024; Feb 20th, 2024; March 11th, 2024; April 17th, 2024; May 3rd, 2024) recorded in the daily operation Worksheet and performed the following procedures:
 - a. Determined that all investment activities were accurately recorded on the daily worksheets per the Internal Controls and Operational Procedure Manual for Investments, Section V (K), and Exhibit 2.
 - b. Verified that the bank balances were not below the \$10,000,000 target threshold maintained by Management as stated during the Walkthrough.
2. Obtained documentation as evidence that the Cash Management and Investments designee completed the annual 8 hours of continuing education in investment practices and products studies for the year 2023, as required by BCC-49, Section VII.

Objectives and Approach - continued

3. CRI randomly selected a sample of 10 monthly Journal entries (Jul 2023; Aug 2023; Oct. 2023; Dec 2023; Jan 2024; Feb 2024; Feb 2024; March 2024; April 2024; May 2024) posted for all investment transactions. The following procedures were performed in accordance with the "Internal Controls and Operational Procedure Manual for Investments", Section V (F):
 - a. Verified that the journal entries were submitted to the Assistant Finance Director for review.
 - b. Verified that the journal entry included the necessary supporting documentation such as brokerage or bank statements.
 - c. Verified that the monthly journal entry was completed and posted on a timely basis.
4. Obtained a sample of four monthly Investment Reconciliation Reports (October 2023; December 2023; January 2024; & April 2024) and performed the following procedures as specified in the county's Internal Controls and operational Procedure Manual for Investment, section V (G) and verified:
 - a. The monthly journal entry was completed in a timely manner.
 - b. The monthly reconciliation included current market value, original price, interest earned, accrued interest, current yields, updated money market and State Board of Administration (SBA) balances, purchases, and sells.
 - c. Review by the Assistant Finance Director was properly documented.
5. Obtain the latest four quarterly reports and perform the following procedure in accordance with BCC-49, section XVII (A) and verified the following were included in the quarterly reports:
 - a. Short-term and long-term investments.
 - b. A list of individual securities held at the end of the reporting period.
 - c. The percentage of available funds represented by each investment type.
 - d. Coupons, discount or earning rates.
 - e. Average life or duration and final maturity of all investments.
 - f. Par value and market value.
6. Verified that the investment aligned with the requirements and allocation limit on security types, issuers and maturities as established by the county in BCC-49, Section XIV "General Investment and Portfolio Limits".
7. Verified that the quarterly reports did not include investments that are not permitted per policy BCC-49, section XIV, "General Investment and Portfolio Limits."
8. Determined that the Multi Asset Investments were allocated appropriately based on the established range set by the county in accordance with the Multi-Asset Class Portfolio Investment (MACM) policy, section IV, "Asset Allocation."
9. Obtained the minutes from the last four investment committee meetings and perform the following procedures in accordance with BCC-49, section XVII (C) and determined:
 - a. The Investment Committee discussed economic outlook, portfolio diversification, maturity structure, potential risks and the target rate of return for the investment portfolio.
 - b. The County Finance Director or designee was in attendance.
 - c. The Investment Advisor (PFM Management representative) was in attendance.

Objectives and Approach - continued

- d. Meeting minutes included evidence that the relevant reports such as the Quarterly reports, Annual reports, etc., as applicable were discussed.

Reporting

At the conclusion of our procedures, we documented our understanding of cash management and investments and summarized our findings related to this process. We conducted an exit conference with management and have incorporated management's responses into our report. We prepared our report and provided copies to appropriate County personnel.

Observations Matrix

Rating	Observations	Recommendation	Management Response
Low	1. Investment Committee Minutes There are five committee members appointed to the Advisory Board Investment Committee – one representative from each of the five districts. One committee member was absent multiple times at the end of calendar year 2002 and during calendar 2023. This member was removed from the committee at the October 10, 2023 meeting pursuant to County Ordinance 2022-13. From October 10, 2023 to present, this position remains vacant. However, we noted that the Advisory Board Investment Committee minutes we reviewed did not indicate whether any committee members were absent from the meeting. The minutes only indicated who was present. The minutes should indicate whether any members were absent (as well as present) to determine if a quorum was met and to track attendance of the members – the minutes should also document for members absent whether their absence was excused by the Chair of the Committee. Tracking attendance / absences is necessary to measure compliance with County Ordinance 2022-13, Sec. 2-213 – General provisions, (5) Attendance/absences on an annual basis. <i>Any appointee who is absent half of the scheduled meetings in a calendar year that take place after their appointment shall be dismissed from their appointment to the advisory board unless excused by the Board of County Commissioners.</i>	We recommend that management take steps to ensure the following: - The minutes should list the names not only members present but also the name(s) of any members absent. If all members are present, the minutes should indicate that no members were absent. - For any members absent, the minutes should indicate whether the absence was excused by the Chair of the Committee and this should be reflected annually in the annual report submitted to the BOCC for review.	Response: Staff will implement the recommendations. Responsible party: Kathleen Prothman, County Finance Director Estimated completion date: December 2024

Observations Matrix - Continued

Rating	Observations	Recommendation	Management Response
Low	2. Investment Policy Updates During our review of BCC-49 Investment Policy, we noted that the last updates and approval to this policy, originated by the Clerk's Finance Department (County Finance), was effective August 23, 2016. The review date indicated on BCC-49 was August 23, 2019. Additionally, the Advisory Board Investment Committee 2023 Annual Report lists the following as a goal for 2024: "Update BCC-49 Investment Policy." Based on our review of BCC-49 and discussions certain provisions need to be updated. We also noted that the <i>Internal Controls and Operational Procedures Manual for Investments</i> was last updated on November 9, 2015. Based on our review of this manual and discussions with County Finance, need to be updated.	We recommend that County Finance update both BCC-49 Investment Policy and the <i>Internal Controls and Operational Procedures Manual for Investments</i> as plan. Based on subsequent discussions with County Finance, they stated that they plan to make sure that both BCC-49 Investment Policy and the <i>Internal Controls and Operational Procedures Manual for Investments</i> are updated.	Response: County Finance is updating <i>BCC-49 Investment Policy</i> and the <i>Internal Controls and Operational Procedures Manual for Investments</i>. Responsible party: Kathleen Prothman, County Finance Director Estimated completion date: December 2024