



Finances

Do you know where your investments are being held?

—Sara Schnoor, Senior Portfolio Advisor, PMA Financial Network, Inc.

Since the financial crisis of 2008, financial institutions and investment firms across the country have faced questions related to their resilience. The Lehman Brothers bankruptcy filing and Madoff scandal sent shockwaves throughout the financial industry. Now, six years later, public entities and the representatives serving on boards and commissions are still wondering if their investments are safe and how fraud can be prevented.

Most public entities have adopted investment policies that focus on three main objectives: safety, liquidity and yield. What does safety mean when it comes to the purchase of an investment? In the case of a security, the answer is two-fold. It means the return of principal at maturity and protection against fraud. Firms that provide reliable credit analysis, similar to the Prudent Man Analysis produced by PMA Financial Network, Inc., can assist investment officers in making sound investment decisions. Similarly, by selecting an independent third-party safekeeping agent or

custodian (a firm other than the one that sold the security), a county can minimize the potential of loss related to theft or investment fraud. A safekeeping agreement requires investments (and pledged collateral) to be held in a separate account, in the name of the buyer, and not in “street name” or the name of the broker/dealer.

Entering into a safekeeping agreement with a third party helps reduce the risk to any county funds during an investment transaction because securities are settled through a process called “delivery versus payment.” Through this settlement process, funds for payment are not released to the selling firm until securities are delivered to the county’s account. Many investment policies require these safekeeping procedures to be reviewed by auditors on an annual basis.

In October 2010, the Government Finance Officers Association (GFOA) released Best Practices titled Using Safekeeping and Third-Party Custodian Services.



Sara Schnoor joined PMA in 2006 and serves as a Senior Portfolio Advisor and as the primary contact for counties related to cash management and investment activity. Sara provides cash flow analysis, bond proceeds management and investing expertise to municipalities across the state. She has experience as a municipal credit rating analyst and as a public sector budget analyst. Ms. Schnoor received her Bachelor of Arts degree from St. Norbert College. She went on to receive a Masters in Public Affairs from the University of Wisconsin-Madison. She regularly attends meetings of the Wisconsin Counties Association, the Wisconsin Government Finance Officers Association, the Wisconsin City/County Management Association and the Municipal Treasurers Association of Wisconsin. Sara holds Series 7, 63 and 65 FINRA licenses.

The Cash Flow Management Program helps public entities intelligently build an investment portfolio that capitalizes on the yield curve benefits of long-term investing.

In that document, the GFOA recommends that governmental entities:

- ❑ Competitively select third-party custodians and safekeeping agents;
- ❑ Have safekeeping/custodial agreements reviewed by legal counsel prior to execution;
- ❑ Evidence their safekeeping or custodial relationship with a signed, written security agreement that is reviewed by counsel and establishes the firm as an agent;
- ❑ Execute all investment transactions on a delivery- versus-payment basis;
- ❑ Designate a specific DDA (demand deposit account) clearing account or custody account for monitoring and reporting purposes, if cost effective;
- ❑ Require that the independent third-party safekeeping agent or custodian mark the portfolio to market at least monthly. Ideally, marking should take place daily with independent pricing;
- ❑ Require reports and monthly statements to be received directly by the government entity from the agent;
- ❑ Ideally, have electronic access to the safekeeping or custody account for monitoring and reporting purposes, if cost effective;
- ❑ Require safekeeping or custodial agents to be insured for error and omissions; and
- ❑ Require review of internal safekeeping and custodial procedures with the independent auditor.

What should a county do if its investments are held in street name or current custodial services seem extraordinarily expensive? The Board of Commissioners of the Wisconsin Investment Series Cooperative (WISC), a local government investment pool, have partnered with US Bank National Association (US Bank) to provide free or low cost safekeeping services for participating counties. WISC participant counties that purchase fixed rate investments including DTC eligible CDs, government agencies and municipal securities through PMA Securities, Inc. receive free custodial services and separate monthly account statements. WISC participant counties that have securities portfolios that were purchased through other firms have access to the same custodial services at a significantly lower cost than similar providers.

In addition to the custodial and safekeeping services provided by US Bank, WISC offers investment programs to Wisconsin counties through PMA Financial Network, Inc. and PMA Securities, Inc. The Cash Flow Management Program helps public entities intelligently build an investment portfolio that capitalizes on the yield curve benefits of long-term investing. Through a detailed investigation of a county's historical cash flow, the program helps create a predictable, defined investment plan. Similarly, the Bond Proceeds Management Program provided through PMA Securities, Inc., a registered Municipal Advisor, facilitates the investment of a scheduled flow of project funds.

Investments are based on projected expenses and administrative efficiencies are provided through PMA Financial Network's expansive bank network. The service includes monthly reports that feature interest earnings projections, arbitrage spend down status and comprehensive portfolio reporting. To learn more about the investment services provided to WISC participants, please contact Sara Schnoor, Senior Portfolio Advisor, at 414.225.0099 x1502. ☒

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References:

Investing Public Funds, Second Edition, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998

GFOA Best Practice Using Safekeeping and Third-Party Custodian Services (2010) available at <http://www.gfoa.org/using-safekeeping-and-third-party-custodian-services>