

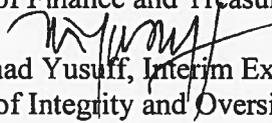
GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Office of Integrity and Oversight



MEMORANDUM

TO: Lasana Mack, Deputy Chief Financial Officer/Treasurer
Office of Finance and Treasury

FROM: 
Mohamad Yusuff, Interim Executive Director
Office of Integrity and Oversight

DATE: December 3, 2009

SUBJECT: Report on Review of OFT Compliance with Collateral Requirements and the
Financial Institutions Deposit and Investment Amendment Act (**Report No.**
IA:OFT:2010-01-M01)

Pursuant to a request by the Chief Financial Officer, the auditors of the Office of Integrity and Oversight (OIO) performed a review of OFT's compliance with the collateral requirements and the Financial Institutions Deposit Act.

OBJECTIVES SCOPE AND METHODOLOGY:

The primary objectives of this review were to:

- Review the current collateral deposit monitoring process to determine adequacy of controls;
- Examine policies and procedures to determine adequacy and effectiveness;
- Review monthly collateral monitoring reports for all banks to determine compliance with the Financial Institutions Deposit Act.

To accomplish our objectives, we reviewed monthly collateral monitoring reports for all banks used by the District to deposit funds in FY 2009. We also reviewed OFT's daily monitoring reports and the Federal Reserve daily reports for all banks for selected months. In addition, we reviewed OFT's policies and procedures for collateral monitoring and interviewed responsible agency officials.

BACKGROUND:

The Financial Institutions Deposit and Investment Amendment Act of 1997 (the Act), DC Law 12-56, Section 47-351.8, requires that all financial institutions with District funds must at all times provide collateral equal to at least 102% of the District funds held for deposits and

investments that are not fully federally insured. The Federal Deposit Insurance Corporation (FDIC) currently insures funds held at eligible financial institutions up to \$250,000.

In October, 2008, the FDIC announced a temporary program, the Temporary Liquidity Guarantee Program that provides separate, unlimited FDIC insurance coverage for all deposits held in non-interest bearing transaction accounts held by government depositors. This program is scheduled to expire at the end of December 2009, unless extended.

OFT is responsible for ensuring that financial institutions with District funds are in compliance with the Act at all times. This responsibility is carried out by OFT's Banking Services Division. Currently, financial institutions holding District funds provide collateral equivalent to 102% of the available "Bank Balance." However, during our review, OFT Banking Services provided us with the current RFP, which will require that financial institutions provide collateral equivalent to 102% of the "Ledger Balance" or the average daily balance.

Monitoring Procedures Recently Instituted by OFT

During our review, we were provided with the current procedures used by OFT to monitor compliance with collateral requirements at financial institutions that were effective on July 15, 2009. We also observed how the Banking Analyst prepared the daily collateral monitoring worksheet. Following is the monitoring process followed by Banking Services:

- Every morning prior to 10:00 a.m. the Banking Analyst prepares a collateral monitoring worksheet, which is based on information provided by an email from the Federal Reserve that is sent to OFT reporting changes to the securities held at the Federal Reserve (such as increase in pledged securities, substitutions, calls etc.) by each financial institution.
- The Banking Analyst checks the email to determine if there are any increases or decreases that could affect the collateralized amounts. If there is a change that results in reduction to the required collateral amounts, Banking Services contacts that financial institution immediately.
- The Banking Analyst accesses the web access to the respective financial institutions to obtain the previous day's available balances for all accounts. This official only has access to the non-investment bank accounts, and gets the account balances for the investment accounts from the Cash Management and Investment Manager, who confirms the balances for the investment accounts.
- All the balances and pledged collateral amounts are recorded in the Collateral Monitoring Report, which is completed daily and signed off by the Banking Services Manager and the Associate Treasurer of Banking and Operations.
- A comprehensive report is provided to OFT by the Federal Reserve at the end of each month showing a list of all pledged securities at each financial institution.

Following is a complete list of federally insured financial institutions where the District has funds. All these institutions are required to provide collateral of 102% of all available funds not covered by FDIC insurance.

**Table 1 - List of Financial Institutions holding District Funds
As at September 30, 2009**

	Bank Balance September 30, 2009	Amount of Collateral Pledged in Federal Reserve Account	% of Collateralizati on	DC Funds Over/Under(+/-) Collateralized
Adams Bank	\$13,150,980.49	\$14,982,438.65	113.93%	\$ 0.00
Bank of America	1,093,388.77	4,224,405.65	386.36%	3,109,149.10
Bank of Georgetown	20,000,000.00	23,050,484.53	115.25%	2,650,484.53
BB&T	30,375,330.19	33,284,249.63	109.58%	2,301,412.84
Chevy Chase Bank	30,000,000.00	31,000,000.00	103.33%	400,000.00
Colombo Bank	15,000,000.00	17,427,536.32	116.18%	2,127,536.32
Congressional Bank	5,000,000.00	5,370,586.88	107.41%	270,586.88
Eagle Bank/Fidelity	10,000,000.00	10,721,708.67	107.22%	521,708.67
Independence	30,746,237.02	34,211,302.58	111.27%	2,850,140.82
Industrial	6,944,784.29	10,688,151.35	153.90%	3,604,471.37
PNC	158,239.71	617,961.06	390.52%	456,556.56
SunTrust	668,160.64	1,612,414.73	241.32%	930,890.88
TD Bank	50,000,000.00	59,796,627.72	119.59%	8,796,627.72
Wachovia	3,379,298.58	12,365,975.19	365.93%	8,919,090.64
GRAND TOTAL	\$216,516,419.69	\$ 259,353,842.96		

Source: OFT Banking Services

RESULTS OF REVIEW

Our review found that OFT's Banking Services has adequate controls in place to ensure that funds held at financial institutions are safeguarded. However, we found one instance of non compliance by one of the banks (Adams Bank) that occurred in January 2009. In this case, OFT followed required procedures and contacted the bank immediately following receipt of the

Federal Reserve Report. The bank took action to bring the collateral level back to the required amount.

During our discussions with OFT Banking Services officials, we were informed that they are planning to have access to the Bloomberg financial site, which will provide real time information on changes at financial institutions and enable them to have information on changes at financial institutions much faster.

We believe that OFT Banking Services current process and internal controls for monitoring collateral are adequate to ensure that all funds held at financial institutions are properly safeguarded. Our review also indicates that in FY 2009 OFT has been in compliance with the Financial Institutions Deposit and Investment Amendment Act.

We appreciate the assistance and cooperation that you and your staff provided during our review. Should you have any questions on the report or need additional information, please contact me at 442-6433 or Nelson Alli at 442-8274.

cc: Natwar M. Gandhi, Chief Financial Officer, Government of the District of Columbia
Lucille Dickinson, Chief of Staff, Office of the Chief Financial Officer
Angell Jacobs, Director of Operations, Office of the Chief Financial Officer
Clarice Wood, Associate Treasury of Banking and Operations, OFT
Kathy Crader, Chief Risk Officer
Nelson A. Alli, Interim Internal Audit Director, OIO
Elizabeth Jowi, Senior Auditor, OIO