



Texas Tech University System Operating Policy and Procedure

BANKING SERVICES POLICY

DATE: August 15, 2013

PURPOSE: Banking services constitute a critical element of cash management regarding the safety of Texas Tech University System (System) assets, service levels, earning potential, and access to current technologies and efficiencies. The most cost effective banking services must be obtained, and the best level of service must be made available to all System components. This operating policy/procedure (OP) is designed to institute service minimums, internal controls, and collateral requirements across the System.

Service minimums: Banking services directly impact the internal operations and earnings of the System, therefore the services must be defined clearly and monitored regularly. Periodically, System-wide banking proposals will be solicited for the selection of one or more banks which are to be used by all System components. Economies of scale gained by a consolidated System-wide contract are designed to reduce overall System costs. Standardization of services and service levels are designed to facilitate the transfer of data and afford each component state-of-the-art banking services.

Internal controls: Fiduciary responsibilities require controls for checks, cash, and electronic transactions with all banking institutions. Therefore, the development of internal procedures supporting such transactions must be established, monitored, and reconciled on a timely basis. Lack of sufficient controls can result in fraud, loss of assets, and/or misstatement of financial information. Best practices in timely and rigorous balancing, reconciliation, and automated postings are required for reporting and asset safety.

Collateral requirements: State law and fiduciary requirements mandate controls be placed on pledged collateral to secure assets in event of a bank default or service interruption.

REVIEW: This OP will be reviewed no later than August 15, on an annual basis, by the Assistant Vice Chancellor of Treasury & Cash Management, with recommendations for revisions presented to the Vice Chancellor/Chief Financial Officer (System CFO).

POLICY/PROCEDURE

I. SCOPE

All component institutions and administration of the System.

II. DEFINITIONS

Automated Clearing House (ACH)

Automated Clearing House funds transferred by entry in and through the National Automated Clearinghouse Association (NACHA). Transfers from individual institutions are grouped by bank code and transferred electronically in batch mode reducing wire costs and providing for a chain of warranties between banking institutions.

Banking Services

Banking services generally include all collection, deposit, and disbursement activities. Each component account has only one banking services depository, however the component may have additional secondary depositories used to facilitate remote locations. These additional depositories should transfer all funds into the component's primary banking services depository on a timely basis as defined by the CFO of the component, and in compliance with this OP.

Cash

Coin, currency, electronically reported balances, credit and debit card transactions, money orders, travelers' checks, and all other negotiable items.

Checks

Documents reflecting a debt of the payer. Checks may be personal or corporate, based upon the credit of the issuer, but can also include money orders, cashier checks, and U.S. Treasury checks.

Collateral

Securities pledged by a banking institution to the System, which in the case of an event of default, bankruptcy, or failure to pay would be liquidated to repay the System for funds held by the bank. Collateral is pledged to, and not owned by the System, and supplements Federal Deposit Insurance Corporation (FDIC) insurance.

Depository

A banking institution designated as a public depository for time and/or demand deposits. Public depositories must provide pledged collateral above the FDIC insurance levels to secure public funds.

Depository Insurance

Insurance provided by the FDIC, or its successor, for public funds deposits. Insurance provides coverage for each individual tax identification number (not account) basically indemnifying up to \$250,000 with the exception of interest and sinking funds which are indemnified separately as testamentary accounts.

Earnings Credit Rate (ECR)

The rate at which funds left in a bank as a compensating balance earn interest from which the institution's banking fees are paid. $[(ECR * collected\ balance) * days\ of\ month / 360 = bank\ fees]$

Electronic transmissions and transfers (Electronic Funds Transfers-EFT)

Electronic payment mechanisms available through banking institutions using the Federal Reserve Wire System (FedWire) or NACHA operating under their specific requirements and standards.

Federal Deposit Insurance Corporation (FDIC)

The FDIC is a membership corporation sponsored by the U.S. Government to insure repayment of time and demand deposits if a member bank becomes insolvent.

<http://www.fdic.gov/deposit/deposits/financial/categories8.html>

Financial Institutions Resource and Recovery Enforcement Act (FIRREA)

The FIRREA regulates the actions of the FDIC when apportioning the assets of a failed or converted banking institution. The Act sets minimum standards and limits for collateral agreements with public entities. It requires a written depository agreement approved by resolution of the bank board or bank loan committee to assure access to pledged collateral. See Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.) and FDIC Regulations regarding Insurance Coverage 12 C.F.R. Part 330.

Margin

The percentage above 100% required to accommodate market value fluctuations of pledged collateral. System requirements set a margin of 102% for pledged collateral.

Master Depository Agreement (MDA)

The contract executed between the authorized financial institution(s) and the System, which supersedes all attachments. The following documents are attached to, and a part of the MDA in the following order of priority:

1. The System Request for Proposal (RFP) for Depository Services
2. The Bank Response to the RFP, including set fees
3. All Bank Service Terms and Conditions delineating particular service requirements
4. System Service Addenda completed by the individual component institutions for services to be utilized under the MDA and its terms

Personal Identification Numbers (PINS)

PINS or codes assigned for security purposes on automated systems.

Represented Check Entry (RCK)

RCK is an ACH transaction format for collecting funds represented by a paper check returned for insufficient or uncollected funds.

Remote Deposits

Remote deposit services allow for the electronic capture and deposit of checks received by the System from the component location. This service reduces float costs and liability for transport and deposits all check funds on a one-day basis.

System Service Addenda

Individual component institutions utilize a System Service Addendum to the MDA, incorporating all terms and conditions of the MDA and specifying services required by the component.

Time and Demand Deposits

A time deposit (certificate of deposit) has a set maturity date. A demand deposit is any other form of deposit including checking accounts, interest bearing accounts, NOW accounts, etc. on which the depositing entity may make a demand for its funds. Demand deposits may be interest bearing or non-interest bearing which affects FDIC insurance coverage.

Transfers

Electronic transactions usually made between accounts within the same banking institution, for one customer.

Wires

Electronic transactions transferring cash between institutions or individuals by debits/credits to their respective banking institutions. Wires are normally processed through FedWire or internationally through Society for Worldwide Interbank Financial Telecommunications (SWIFT) or Clearing House Interbank Payments System (CHIPS). Such wire transfers have no guaranties by either party.

III. RESPONSIBILITIES

Board of Regents (BOR)

- delegates to the System CFO the authority to execute and deliver master depository agreements (MDAs) and associated documents.
- delegates to the component CFO's, or the System CFO, the authority to execute and deliver system service addenda to the MDA for each component's banking services with banks that have an MDA with the System

Vice Chancellor / Chief Financial Officer (System CFO)

- executes contracts for banking services from financial institutions under an MDA
- reviews and approves any substantive change to this OP.
- reviews, for approval, any unique institutional requirement which may require minor deviations from this OP, and communicates any deviations to all involved parties

Office of Treasury & Cash Management (Treasury Office)

- creates and maintains a standard Banking Services RFP and MDA for use by the System and its components, with input from all components
- competitively solicits banking services proposals for the System and its components through its RFP at least every five years and evaluates proposals for services, costs, earnings potential, and service efficiencies for approval and acceptance by the BOR
- provides and monitors, on an ongoing basis, System service addenda to be used by each component in choosing services

- ensures compliance by the contracted bank(s) regarding banking services with this OP
- monitors System-wide collateral information from the Custodian and Bank to ensure adequate daily collateralization of all System depository assets
- maintains current signatory information from all components and notifies all contracted banks of authorized account signers at all components
- reviews and negotiates any new services to be added to the MDA during the contract period, and communicates service changes to all components

Component Chief Financial Officers

- chooses and acquires appropriate banking services from financial institutions through System Service Addenda providing a copy to the Treasury Office
- establishes security authorization levels, by employee, for any transfer or signatory responsibilities under any System Services Addendum and notifies the Treasury Office regarding authorized signers
- ensures that security tokens are secure and that bank passwords and PINS are changed on a regular basis, or on the schedule established by the contracted banking institution, not to exceed an annual basis, on all authorized employees
- creates, approves, and provides for the annual review of departmental operating procedures for bank deposits, transmissions, transfer requests, and withdrawals in accordance with this OP
- creates operating controls and procedures supporting this OP for the deposit, withdrawal, and transfer of funds from banking institutions

Department Heads

- implement operating procedures supporting this OP for the safe and efficient deposit, withdrawal, and transfer of funds from any banking institution
- ensures timely handling and deposit of funds

IV. ACQUISITION AND MONITORING OF BANKING SERVICES

1. Competitive proposals from banking institutions will be solicited by the System at least every seven years. The System's RFP will consider and accommodate all component needs. All components will have input to the RFP. The MDA and System Service Addenda will be executed for no longer than five years, with two optional one-year term extensions. Periodic competitive reviews ensure that the System is receiving the most competitive pricing and is maintaining its technological advantage.
2. The RFP shall be posted on the Texas Tech University Procurement Services (TechBid) website, and other sites as needed to achieve sufficient quality and number of responses.
3. Objectives for financial institutions proposing banking services are:
 - a. responsiveness and ability to provide services required,
 - b. banking services costs,
 - c. adequate collateralization and collateral control, and
 - d. experience, references, and creditworthy continuity.
4. An MDA shall be established and standardized by the Treasury Office for use with each bank relationship. The MDA will, at a minimum, establish a depository relationship, set collateral requirements, and be executed to fulfill all requirements of FIRREA. The MDA will incorporate, in priority order:
 - a. the RFP
 - b. the RFP Proposal from the financial institution
 - c. any bank technical service agreements which are to be executed by the System for specific services provided, and
 - d. all System Service Addenda completed by the individual component institutions for services to be utilized under the MDA and its terms.

The MDA will refer to, and comply with, the standards and requirements of the System RFP and the fees proposed in response to that RFP. Final agreements must be approved by the Office of General Counsel and executed by the System CFO.

5. All components will utilize a System Service Addendum to the MDA to choose specific services included in the MDA to be used by the component. Additional System Service Addenda may be executed during the contract period to accommodate changes in the component, or new services offered by the chosen financial institution.
6. Primary depository services should be provided by only one banking institution for each component. Additional secondary depositories for specific deposit accounts, supplemental earnings accounts, or for remote locations, may be established if necessary, preferably through the primary depository.
7. Secondary depositories requiring collateralization (for balances above FDIC insurance levels) must execute a depository agreement through the Treasury Office. Components requiring secondary depositories must send written justification to the Treasury Office, who will negotiate the secondary depository agreement and will be responsible for monitoring collateral.
8. All depository agreements will be regulated through the Treasury Office. No supplemental banking relationships will be established without full review and approval by the Treasury Office.

9. Compensation for banking services shall be on a fee basis so that all funds are invested at the highest earnings rate at all times. Compensation by compensating balance is only permitted when the bank's earnings credit rate (ECR) exceeds all alternative rates for investment by more than 10 basis points (0.10%).
10. On an annual basis, the Treasury Office shall query all local banks, by component, to ensure that no unauthorized accounts have been established with the institution's name(s), a similar name, or its tax identification number.

V. SYSTEM REQUIRED BANKING SERVICES TO BE PROVIDED BY BANKS

1. **Sweep account structures** – accounts structured to create bank overnight investment options, which utilize and ensure all bank-held operating funds are invested at the highest possible rate.
2. **Interest earning accounts** – accounts that earn an interest rate or an earnings credit rate that offsets fees.
3. **Wire and transfer services** – transfer services utilizing electronic transactions for efficiency, control, and cost effectiveness.
4. **Remote deposit** – electronic deposit of checks that eliminates funds float and potential liability during non-armored car transfers.
5. **Positive pay** – a service that captures check information and prohibits fraudulent checks on System accounts (advance reconciliation), with payee verification,
6. **Stop Pay** – online services for the initiation and renewal of cancelled System checks, which can also be processed through positive pay files.
7. **Partial or full reconciliation services** – services used to decrease manual System reconciliation procedures on all active accounts, whenever feasible and cost effective, to reduce internal staff time on reconciliation.
8. **Re-presentation of checks (RCK)** – a service for processing insufficient funds checks (NSF) received which are re-presented through a date-targeted ACH.
9. **Automated Clearing House (ACH)** – collection and disbursement through the ACH system to reduce costs and promote electronic processing.
10. **ACH Filters** – filters and blocks on ACH accounts to prevent unauthorized transactions.
11. **Imaging** – the electronic capture of all checks, including deposit documentation, is required to reduce physical document handling.
12. **Reporting** – online reporting and transaction capability. All bank reporting should be received and downloaded electronically if available.
13. **Stored value cards** – debit cards used to expedite payments with an ACH transfer of funds to a designated card distributed to System employees (pay cards) or payment recipients.
14. **Customer support** – a requirement for the relationship officers of the bank to meet with components on no less than a semi-annual review of services.

VI. SYSTEM USE OF BANKING SERVICES

1. Sweep accounts will be utilized until funds can be moved to the System's Short/Intermediate Term Investment Fund (SITIF). Bank sweep alternatives shall include only Securities & Exchange Commission (SEC) registered U.S. government and agency money market funds. Sweeps will minimize collateral risk by eliminating overnight deposits which otherwise must be collateralized.
2. All accounts shall be structured as interest earning or as money market accounts. (Balances used for compensating balances in non-interest bearing accounts, when appropriate, are defined as earning at the bank's ECR rate.) Zero balance account (ZBA) structures, when cost effective, should be used to aggregate funds.
3. Account consolidation shall be a goal at each component. An internal review and justification of the number and type of accounts at each component should be part of the acquisition of banking services.
4. The component CFOs shall approve and be a signatory on every account established by the component to ensure adequate authorization and disclosure.
5. No controlled disbursement accounts should be used.
6. Non-repetitive wire and non-batched, non-repetitive ACH transfers shall require dual control with separate initiation and release of transactions. Repetitive electronic transfers on a bank retained template shall also require dual control.
7. Liability based review for dual signatures is not required from any banking institution. Dual signature requirements (mechanical or hand-written) are internally required for control purposes, and the dual signatures should be included on back-up documentation. The MDA shall stipulate that the bank is not liable for any audit of dual signatures to reduce bank fees.
8. Electronic scanning and remote depositing of checks shall be used at all locations to reduce float and reduce the liability of internal check handling and transfer. Locations with minimal check volume should utilize remote deposit functions rather than creating minimal volume checking accounts, when feasible.
9. Payee positive pay shall be applied to all accounts in which checks are written, to reduce check fraud.
10. Stop pays should be minimized through the use of automated positive pay transactions and renewals. If possible through the bank, all stop pays will be reversed on the positive pay file to ensure non-payment and elimination from the outstanding check file.
11. Reconciliation of all accounts should be made on a timely basis within 30 days of receipt and the bank notified of any errors for correction.
12. RCK should be used to improve NSF collection rates. Appropriate notification will be made in accordance with current law. The Treasury Office shall review the NSF process periodically to evaluate banking services to speed processing and increase collections.
13. Origination of payments and receipt of funds by ACH should be a goal of each component due to the efficiency and cost effectiveness of the method. ACH origination is required on all vendor disbursement transactions over \$1,000. Vendors should be encouraged to make payments through ACH.
14. The use of ACH filters/blocks accounts should be reviewed to reduce fraudulent transactions and all accounts shall be reviewed for necessary filters/blocks by the component CFOs.
15. Minimization of physical documents should be a goal of each component.
16. All components should use automated bank reporting through downloads and for archival purposes.

17. Direct deposit and stored value cards (pay cards) should be evaluated for use for payments through electronic funds to reduce the number of physical checks produced.
18. To benefit from the reduced cost offered by electronic transfers and the System's ability to control the exact timing of funds transfers, all institutions should use electronic transfers whenever possible for both debit and credit transactions.
19. Paper check signatures should be digitized and securitized if possible to prevent fraud.
20. Paper check formats and check information should be printed concurrently if possible. Concurrently printed checks are to replace pre-printed checks which are more prone to fraud through duplication. Bank *check print* services should be evaluated to reduce check costs by each component.
21. Voided checks are to be physically modified (punched) or shredded immediately to avoid reuse and duplication.
22. Blank physical checks are to be secured in a locked area at all times and a sequentially numbered log with a sign-off maintained accounting for all physical checks before and after check printing runs.
23. All ACH transaction totals are to be emailed to the Treasury Office on or before the transmission date.
24. The component CFOs shall institute sufficient controls on all transactions to include:
 - a. daily reconciliations of outgoing wires and ACH files,
 - b. limited access to electronic transactions, and transfer of EFT information before bank deadlines.
20. As a priority, whenever possible, major customers and granting agencies should be instructed to make payments by ACH on the date due and requested to receive any payments via ACH.
21. As a priority, whenever feasible, institutions should institute ACH transfers for all repetitive payments to be made on the date due.
22. Wherever feasible, payroll expenses should be paid by direct deposit or stored value cards (pay cards). As a goal for each component and to the extent allowed by law, all new employees should be paid through direct deposit.

VII. DEPOSITORY COLLATERAL

1. Collateral throughout the System will be monitored and controlled through the Treasury Office. Collateral receipts, reports, and component balances will be sent directly to the Treasury Office.
2. This OP, the System's banking services RFP, and the MDA shall establish collateral conditions and requirements required for all System deposits. The Public Funds Collateral Act shall be adhered to at all times.
3. Authorized collateral for System deposits shall include only obligations of the United States Government, its agencies and instrumentalities, including mortgage backed securities and collateralized mortgage obligations (CMO) passing the standardized *bank test* (shock test for volatility).
4. Collateral pledges shall be perfected by receipt of an original safekeeping trust receipt received directly from the independent custodian. The receipt shall be maintained by the Treasury Office.
5. A minimum collateral margin of 102% shall be maintained on all deposits to include accrued interest, at all times. The pledging institution shall be made contractually liable for monitoring and maintaining the collateral margins daily.

6. Collateral shall be safe-kept in an independent financial institution outside the holding company of the pledging institution. A written monthly report shall be provided by the custodian to the System to include full collateral descriptions, at a minimum, or daily System electronic access to daily information provided by the Custodian.
7. A written collateral agreement shall be executed with every System depository. In order to fulfill the requirements of the Financial Institutions Resource and Recovery Act (FIRREA), the contract must at a minimum:
 - be in writing,
 - be approved by resolution of the bank's board or bank's loan committee,
 - state that it is executed under the terms of FIRREA,
 - reference the System's authorized types of collateral but include no listing of that collateral as part of the agreement,
 - require an independent third party custodian,
 - allow for System approved substitutions,
 - require a collateral margin of no less than 102%,
 - require continual monitoring and maintenance of margins by the bank
 - require that a monthly listing of the collateral be provided by the Custodian
8. Before any deposit of System funds, the collateral agreement must be executed and proof of pledged collateral received by the System. Collateral shall be in place and documented before funds at least one day before any funds are transferred.
9. The Treasury Office shall verify, at least weekly, the market value of the collateral against the deposits plus accrued interest.
 - a. If insufficient collateral is pledged, the Treasury Office shall immediately contact the bank on a margin call for same day action.
 - b. A copy of any margin call shall be maintained on file.
10. If substitution or withdrawal of collateral is requested by the bank, the Treasury Office will verify the market value of collateral currently pledged and the level of deposits in the institution. If sufficient value is being substituted or remains in the account, the release will be approved. The bank shall be required to move the new securities into safekeeping before the current securities are removed.

VIII. SECURITY CODES/PINS

1. The Treasury Office is responsible for the security administration of accounts and maintaining lists of authorized employees for specific transactions with all banking institutions.
2. Component CFOs are responsible for establishing authorization levels by employee for online activity, and transfer or signatory responsibilities. The Treasury Office will be notified regarding authorized access for all employees
3. Any individual assigned authorization for financial transactions and assigned a password, code, or personal identification number (PIN), is personally responsible for securing this code/PIN at all times. Unauthorized release or sharing of any security code/PIN will result in personnel actions up to, and including termination.
4. Codes/PINS should be changed periodically in accordance with bank requirements (and for internal codes/PINS on the component's own established schedule). Where feasible, code/PIN authorizations should be tied to dollar limits on system transactions.

5. Individuals authorized for financial transactions through an assigned code/PIN will relinquish that code/PIN immediately upon notice of resignation or notice of termination. The code/PIN shall be changed or terminated in all applicable internal and bank systems immediately upon termination by an authorized user.
6. The component CFO, or controlling department head, will provide for an audit of authorized users and their assignments on no less than an annual basis.

IX. ELECTRONIC FUNDS TRANSFERS

1. All money wires will be made electronically and preferably established on a repetitive basis. All electronic transactions for the withdrawal or transfer of funds from a banking institution will require action from a minimum of two authorized individuals.
 - a. Establishment of repetitive transfers will require dual review and creation.
 - b. Non-repetitive actions shall require dual initiation/release: one authorized individual to initiate and one to release the wire or transfer.
 - c. A list of the authorized individuals is to be reported to and approved by the Treasury Office and reviewed at least annually.
2. Approval of checks over specific dollar limits shall be set for each component in the annual delegation of signature authority approved by the Board of Regents. Any manual vendor check over \$ 25,000 shall be reviewed by any authorized signer on the account.
9. The standard Wire Transfer Agreement presented by the bank should be reviewed but should not be changed in any manner without full review by the Office of General Counsel (In accordance with the Uniform Commercial Code (Texas Business Code) changes to this document require full documentation by the institution on the reinstatement of modified controls and modifications may impair the System's comparative negligence protection under the Code.)