

1. Title

Banking Services Policy

2. Policy

Sec. 1 Purpose. The purpose of this Policy is to institute controls and standardize cash management policy elements across the U. T. System. Unique institutional requirements may require minor deviations from this Policy. Any substantive change must be reviewed and approved by the U. T. System Office of Finance.

Sec. 2 Policy Statement. Banking relationships constitute a critical element of cash management affecting the service level and earning potential of the U. T. System as well as the safety of its assets. The most cost effective banking services must be obtained for each institution and the best level of service made available to all U. T. System institutions. To pursue these goals, Systemwide service minimums, internal controls, and collateral requirements have been established. Periodically, Systemwide banking proposals will be solicited for the selection of one or more banks that are to be used by all U. T. System institutions. The process used to determine Systemwide bank alternatives will utilize a standardized U. T. System Request for Proposal (RFP).

Sec. 3 Delegation of Authority. Funds held in demand deposits, time deposits, or nonnegotiable certificates of deposit shall be deposited or invested only in banks with which the Board of Regents has a depository agreement. The Board delegates to The University of Texas Investment Management Company (UTIMCO) or the Executive Vice Chancellor for Business Affairs authority to execute and deliver depository and custody agreements when such deposit agreements are with banks meeting the then current policies of the Board and are in substantially the form of a standard deposit agreement approved by the Board or, for other agreements, in a form approved by the U. T. System Administration Office of General Counsel (OGC). Subject to the provisions of Board of Regents' *Rules and Regulations*, Rule 10501, the Board delegates to the chief business officer (CBO) of the institution or the Executive Vice Chancellor for Business Affairs the authority to execute and deliver contracts for banking services with banks that have a depository agreement with the Board.

Sec. 4 Institutional Funds. The Board, the Chancellor, and the institutional presidents may not, by law, borrow money from any person, firm, or corporation to be repaid from institutional funds except as specifically authorized by the Texas Legislature. Subject to the general provisions of Board of Regents' *Rules and Regulations*, Rule 10501, and, except

as otherwise specified in the Regents' *Rules and Regulations*, the Board of Regents delegates to the Chancellor and to the Executive Vice Chancellor for Health Affairs the authority to act on behalf of the Board to approve loans of institutional funds, which are not otherwise restricted, to a certified nonprofit health corporation and to execute contracts, agreements, and other documents or instruments related to such loans.

Sec. 5 Economies of Scale. Banking services impact the internal operations and earnings of the U. T. System and therefore the services and agreements must be defined clearly and services monitored regularly. Economies of scale gained by consolidated Systemwide contracts are designed to reduce U. T. System costs overall.

Sec. 6 Fiduciary Responsibilities. U. T. System fiduciary responsibilities require controls for cash and electronic transactions with banks and 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, collusion, or loss of assets. Accurate and timely balancing, reconciliation, and automated postings are required for reporting and asset safety. State law and fiduciary requirements mandate controls on pledged collateral to secure assets in event of a bank default or service interruption.

Sec. 7 Acquisition and Monitoring of Banking Services.

7.1 Competitive proposals from banking institutions will be solicited by the U. T. System at least every five years. The U. T. System's RFP will accommodate all institutions of the U. T. System and is to be used by all institutions in the Systemwide proposal process.

7.2 Banking services agreements will be executed for no longer than five years. Periodic competitive review assures that the U. T. System is receiving the most competitive pricing and is maintaining its technological advantage.

7.3 Primary depository services should be provided by only one banking institution for each U. T. System institution. Additional subsidiary depositories for specific deposit accounts, used primarily for remote locations, may be established when necessary. Subsidiary depositories used in this manner must execute a depository agreement and be required to provide approved collateral if balances exceed the Federal Deposit Insurance Corporation (FDIC) insurance coverage. Institutions requiring additional banking services depositories must send

written justification to the Vice Chancellor for Business Affairs to receive authorization prior to execution.

- 7.4 The RFP shall be posted on the Texas Comptroller (Electronic State Business Daily) website at a minimum. Objectives for banking services are:
 - (a) responsiveness and ability to provide services required;
 - (b) banking services costs; and
 - (c) experience, references, creditworthy continuity of bank, and local bank representation.
- 7.5 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 15 basis points. Should the ECR of the local depository be 15 basis points or more below alternative earnings rates, the banking arrangement must utilize a fee basis allowing funds to be invested at a higher rate.
- 7.6 A standard banking depository agreement shall be established and standardized by OGC for use on any bank relationship. The agreement will, at a minimum, address collateral requirements and fulfill all requirements of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA). Additional technical service agreements may be executed by the U. T. System for specific services provided. All agreements will refer to and comply with the standards and requirements of the U. T. System RFP and the fees proposed in response to that RFP. Final agreements must be approved by OGC and executed through the Office of Finance.
- 7.7 Bank charges to each U. T. System institution will be monitored against the contracted fees on a monthly basis through an account analysis monitoring worksheet by that institution. Differences will be identified to the bank and corrected by the bank before institutions authorize any analysis debits or direct fee payments for those charges.
- 7.8 The internal institutional float on funds should be evaluated and monitored to assure minimum processing time as deposited items move to the banking institution. The potential

advantageous use of lockboxes, remote deposits, or other automated services should be considered to speed processing. Evaluation of armored transport services should be included in the evaluation.

- 7.9 Reconciliation of all accounts, including merchant services, shall be made within 30 days of receipt.
- 7.10 On an annual basis, each institution shall query all local banks to assure that no unauthorized accounts have been established with the institution's name(s), a similar name, or its tax identification number.
- 7.11 Where feasible, institutions (particularly health care collections from third party payers) should utilize automated image matching for remittance data capture (matching payments to outstanding claims) to integrate check and remittance documentation electronically.
- 7.12 U. T. System Required Banking Services to be Provided by Banks.
 - (a) To supplement the institutions' daily major cash transfers to the Short Term Fund, and except where legally prohibited, sweep account structures to bank overnight investment options should be utilized to ensure all minimal bank-held operating funds are invested at the highest possible rate. Bank sweep alternatives shall include only Securities and Exchange Commission (SEC) registered U.S. government and agency or prime money market funds. Sweeps are designed to also minimize collateral risk for the U. T. System by eliminating overnight deposits that otherwise must be collateralized.
 - (b) All accounts shall be structured as interest earning. (Balances used for compensating balances when appropriate are defined as earning at the bank's ECR rate.)
 - (c) Account consolidation shall be a goal at each institution. An internal review and justification of the number and type of accounts at each institution should be part of the acquisition of banking services. The CBO or his designee shall approve and be a signatory on every account established by the institution to assure adequate authorization and disclosure.

- (d) Use of controlled disbursement accounts should be minimized unless authorized by the CBO and should be used only to maximize daily transfer amounts to The University of Texas Investment Management Company (UTIMCO) funds.
- (e) Non-repetitive wire and non-batched and non-repetitive Automated Clearing House (ACH) transfers shall require dual control on initiation and release of transactions.
- (f) No dual signature liability based review is to be required from a banking institution. If a U. T. System institution requires dual signatures (mechanical or handwritten) for control purposes, the dual signatures should be required on backup documentation preferably. The banking contract shall stipulate that the bank is not liable for any audit of dual signatures thereby eliminating unnecessary bank charges attendant to this service.
- (g) Electronic scanning and depositing of checks shall be used whenever feasible at locations with sufficient volume to reduce float and reduce the liabilities of internal check handling and transfer. All locations shall be reviewed by the CBO or his designee as to the feasibility for this service or other services developed that speed deposit and reduce manual handling of assets.
- (h) Positive pay (advance reconciliation) shall be applied to all accounts to eliminate fraud on checks with the exception of certain imprest funds or where not allowed under law.
- (i) Partial or full reconciliation services shall be applied to all active accounts whenever feasible and cost effective to reduce internal U. T. System staff time on reconciliation.
- (j) Stop pays should be minimized through the use of positive pay transactions. All stop pays will be reversed on the positive pay file to ensure nonpayment and elimination from the outstanding check file.
- (k) Nonsufficient funds (NSF) checks received should be represented through targeted ACH re-presentation check entries (RCK) if proved cost effective. The CBO or his designee shall review the NSF process periodically to evaluate use of banking services to speed processing and increase collections.

- (l) ACH origination should be a goal of each institution and is encouraged due to the efficiency and cost effectiveness of the payment and receipt method. ACH origination is required on all collection and disbursement transactions over \$5,000, if possible.
- (m) Filters and/or blocks are required on all ACH accounts to prevent unauthorized transactions. The extent of the filters/blocks for the institution shall be reviewed by the CBO or his designee for appropriateness.
- (n) Bank imaging and truncation of all checks, including deposit documentation, is required to reduce physical document handling.
- (o) Direct deposit and stored value cards (pay cards) should be evaluated for use whenever feasible for payments through electronic funds to reduce the number of physical checks produced. Note (October 2009): Stored value cards (pay cards) offered under existing banking services agreements are intended to be used only for payroll services and are not intended to be used for any financial aid disbursements. Recently, the U.S. Department of Education has made a determination that a community college system's debit card program for student loans does not meet regulatory requirements (related to fees assessed to students). Any use of stored value cards or debit card programs for financial aid disbursements must be reviewed and approved by the CBO and OGC in writing.
- (p) A local account executive shall be required to be assigned by the bank for local contact and servicing. An annual meeting with the account executive by the CBO or his designee is required to review current services and evaluate other potential services.

Sec. 8 Authorized Depository Collateral.

- 8.1 Subject to State law, this Policy and the U. T. System's banking RFP establish the list of authorized collateral and the U. T. System required collateral margins for all U. T. System deposits.
- 8.2 Authorized collateral for U. T. System deposits shall include only obligations of the U.S. Government, its agencies and instrumentalities, including mortgage backed securities passing the standardized bank test (shock test for volatility).

- 8.3 Collateral shall be perfected by receipt of an original safekeeping receipt (or report) received directly from the independent custodian. A copy of the receipt (or report) shall be maintained by the U. T. System.
- 8.4 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 at all times.
- 8.5 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 to the U. T. System to include full collateral descriptions and current market value at a minimum.
- 8.6 A written collateral agreement shall be executed with every U. T. System depository. In order to fulfill the requirements of FIRREA, the contract must:
 - (a) be in writing,
 - (b) be approved by resolution of the bank's board or bank's loan committee,
 - (c) state that it is executed under the terms of FIRREA,
 - (d) reference the U. T. System's authorized types of collateral,
 - (e) require an independent third party custodian,
 - (f) allow for U. T. System approved substitutions,
 - (g) require a collateral margin of no less than 102%,
 - (h) require continual monitoring and maintenance of margins by the bank, and
 - (i) require that a monthly listing of the collateral be provided to the U. T. System.
- 8.7 Before any deposit of U. T. System funds, the controlling depository agreement must be executed and proof of pledged collateral received by the U. T. System.
- 8.8 Safekeeping confirmations and monthly reports of collateral holdings shall be maintained by the Office of Finance, as

necessary.

- 8.9 The Office of Finance shall verify the market value of the collateral against the deposits plus accrued interest.
- (a) If insufficient collateral is pledged, the Office of Finance shall immediately contact the bank on a margin call for same day action.
- (b) The written margin call shall be maintained on file.
- 8.10 If substitution or withdrawal of collateral is requested by the bank, the Office of Finance 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.

Sec. 9 Security Codes/Personal Identification Numbers.

- 9.1 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.
- 9.2 Codes/PINs should be changed periodically in accordance with bank requirements (and for internal codes/PINs on the institution's own established schedule). Where feasible, code/PIN authorizations should be tied to dollar limits on system transactions.
- 9.3 Individuals authorized for financial transactions through an assigned code/PIN will relinquish that code/PIN 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 of authorized user.
- 9.4 The CBO or controlling department heads will provide for an audit of authorized users and their assignments on no less than an annual basis.

Sec. 10 Electronic Funds Transfers. Because of the reduced cost offered by electronic transfers and the U. T. 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. The CBO or his designee is responsible for the initiation and receipt of all electronic funds transfers (EFT) transactions and will provide for wire, ACH, and transfer capability with the depository through the banking services RFP, agreement, and service agreements.

- 10.1 All money wires will be made electronically and preferably established on a repetitive basis if feasible. 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 transaction 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 CBO or his designee and reviewed at least annually.
- 10.2 Approval of checks over specific dollar limits shall be set as policy for each institution by its CBO. Systemwide, any check over \$25,000 will require review by the accounts payable supervisor, or his or her designee, for review and sign off on the check documentation.
- 10.3 Paper check signatures should be digitized and securitized if possible to prevent fraud.
- 10.4 Paper check formats and check information should be printed concurrently, if possible. Concurrently printed checks are to replace preprinted checks, which are more prone to fraud through duplication.
- 10.5 Voided checks are to be physically modified (punched) to avoid reuse and duplication.
- 10.6 Physical checks are to be secured in a locked area at all times and a sequentially numbered log maintained accounting for all physical checks.

- 10.7 All wire and transfer transactions are to be reported to the CBO or his designee on a same business day basis according to departmental operating procedures.
- 10.8 The CBO shall institute sufficient controls on all transactions to include:
 - (a) recording of all wire confirmation numbers as part of the transaction documentation,
 - (b) balancing the outgoing files against outgoing bank transactions,
 - (c) daily reconciliations of outgoing wires and ACH files,
 - (d) limited access to electronic transactions, and
 - (e) transfer of EFT information before bank deadlines.
- 10.9 The standard wire transfer agreement presented by the bank should be reviewed but should not be changed in any manner without full review by OGC. In accordance with the Uniform Commercial Code (*Texas Business Code*), changes to this document require full documentation by the institution if the reinstatement of modified controls and modifications may impair the U. T. System's comparative negligence protection under the Code.
- 10.10 As a priority, whenever possible, major vendors, repetitive vendors, and granting agencies should be instructed to make payments by ACH on the date due.
- 10.11 As a priority, whenever feasible, institutions should institute ACH transfers for all repetitive payments to be made on the date due.
- 10.12 Wherever feasible, payroll expenses should be paid by direct deposit or stored value cards (pay cards) if found cost effective. To the extent allowed by law, new employees should be paid through direct deposit.
- 10.13 Incoming Electronic Transfers.
 - (a) The CBO or his designee must be informed by all departments on a timely basis regarding incoming electronic transfers.

- (b) Reconciliation on incoming transfers must be made on a daily basis.

3. Definitions

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.

Cash - to include coin, currency, electronically reported balances, credit card transactions, money orders, travelers checks, and all other negotiable items.

Certified Nonprofit Health Corporation - a nonprofit health corporation that has been authorized by the Board of Regents and certified by the Board of Medical Examiners under *Texas Occupations Code*, Chapter 162.001.

Checks - documents reflecting a debt of the payor. 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 University, which in the case of bankruptcy or failure to pay would be liquidated to repay the University for funds held by the bank. Collateral is pledged to and not owned by the University and supplements FDIC insurance.

Collateral Pooling - the process whereby depository institutions may consolidate required collateral on multiple public entities for safekeeping and record keeping purposes. Pooling creates a centralized control on the collateral by the State or other entity.

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 \$100,000 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. $([ECR * \text{collected balance}] * \text{days of month} / 360 = \text{bank fees})$

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.

FDIC - Federal Deposit Insurance Corporation. The FDIC is a membership corporation sponsored by the U.S. Government to insure repayment of savings and time deposits if a member bank becomes insolvent.

FIRREA - the Financial Institutions Reform, Recovery and Enforcement Act 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. 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. U. T. System requirements set a margin of 102% for pledged collateral.

PINs - personal identification numbers or codes assigned for security purposes on automated systems.

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, Negotiable Order of Withdrawal (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 the status of their FDIC insurance coverage.

Transfers - electronic transactions usually between accounts within the same banking institution for one customer.

Wires - electronic transactions for the transfer of cash between institutions or individuals by debits/credits to their respective banking institutions. Wires are normally processed through FedWire or internationally through the Children's Health Insurance Program (CHIPs). Such wire transfers have no guaranties by either party.

4. Relevant Federal and State Statutes

[Texas Government Code Chapter 2257 Texas Public Funds Collateral Act](#)

[Texas Occupations Code Chapter 162.001 Certification by Board](#)

[Financial Institutions Reform, Recovery and Enforcement Act \(FIRREA\)](#)

5. Relevant System Policies, Procedures, and Forms

[UTS166, Cash Management and Cash Handling Policy](#)

[Board of Regents' Rules and Regulations, Rule 10501](#)

6. System Administration Office(s) Responsible for Policy

Shared Business Office

7. Dates Approved or Amended

September 1, 2007

October 5, 2009

November 28, 2012