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## Overpaying Investment Brokers for Investment Securities

Overpaying investment brokers for investment securities such as U.S. Treasury securities and corporate bonds is an ongoing problem for governmental entities nation-wide. It has been estimated that as many as five out of ten local governments don't get the best pricing when buying and selling investment securities. Overpaying investment brokers for investment securities results in a loss of public monies needed to pay for vital public services.

In one instance a local government overpaid its investment broker by almost \$500,000 for purchases of U.S.

Governmental Securities. The government's investment broker executed over 100 trades, buying and selling bonds on behalf of the government, charging commissions more than double the norm for each trade. The combination of excessive trading and high brokerage commissions quickly added up to a significant loss of public monies. This trading scheme was ultimately detected by the investment brokerage firm and the excessive commissions were refunded to the government. However, government finance officials cannot rely on investment brokerage firms to detect and refund all excessive charges.

## What You Can Do to Protect Your Entity

A few well-placed internal controls can help protect your entity from abusive investment practices.

- Establish clear policies, procedures, and documentation requirements for purchases and sales of investments.
- Request quotations from more than one investment brokerage firm when buying and selling investment securities to help ensure trades are executed at the best possible price.
- Have an employee independent of the investment function periodically review investment transactions to look for patterns of excessive trading and ensure transactions are in compliance with established policies and procedures.
- Check the investment broker's licensing history using the Financial Industry Regulatory Authority BrokerCheck reports ([www.finra.org](http://www.finra.org)) for previous allegations of infractions and disciplinary histories.