

COUNCIL COMMUNICATION

TO: THE CITY COUNCIL
FROM: THE CITY MANAGER'S OFFICE

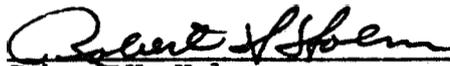
COUNCIL MEETING DATE: SEPTEMBER 19, 1990

SUBJECT: ANNUAL INVESTMENT POLICY AND INTERNAL CONTROL GUIDELINES

RECOMMENDED ACTION: That the City Council approve the attached Resolution adopting an annual investment policy and internal control guidelines,

BACKGROUND INFORMATION: The California State Legislature enacted AB1073 in 1984 requiring local agencies to adopt an annual investment policy.

This policy is presented to the City Council after the books are closed to enable staff to obtain certain benchmark rates of return for the fiscal year 1989-90. Page 3 of the attached Investment Policy indicates these comparable benchmark rates.



Robert H. Holm
Finance Director/Treasurer

RH: ss

Attachments

CC&RINV/CO.COM

CITY OF LODI
STATEMENT OF INVESTMENT POLICY

Purpose

This statement is intended to provide guidelines for the investment of the city's temporary idle cash under the prudent Man Rule.(1)

Objective

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City strives to obtain the highest yield obtainable as long as investments meet the criteria for safety and liquidity.

Policy

The City maintains a pooled cash concept for investment purposes. Interest earnings are allocated according to average daily cash in each Fund.

Investments may be made in the following instruments as allowed under current legislation of the State of California (Government code Section 53600 et seq.) .

- Securities of the U. S. Government, State of California or Local Agencies
- Local Agency Investment Fund (State Pool)
- Certificates of Deposit (time deposits)
- Negotiable Certificates of Deposits
- Bankers Acceptances
- Commercial Paper
- Money Market Funds
- Repurchase Agreements (collateralized by U.S. Treasury securities)
- Passbook Savings Account
- Other that are, or may become, legal investments through the State of California Government Code and with prior approval of the City Council

(1) Civil Code Section 2261, et seq. states in part , "...in investing for the benefit of another, a trustee shall exercise the judgment and care, under the circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of their own affairs."

Criteria for Selecting Investments (in order of priority)

1. Safety

Safety and risk associated with an investment refers to the potential **loss** of principal, interest or a combination of these amounts. The first level of risk control is **found** in **state** law which restricts the particular type of investment **permissible** for municipalities. The **second** level of risk control is reduction of default risk **by investing** in **instruments** that appear, upon examination, **to be the most credit worthy**.

The third level of risk control is **reduction** of market risk **by investing** in **instruments** that have maturities coinciding with **dates** of disbursement, thereby eliminating risk of loss from a forced sale.

The City of Lodi only invests in those instruments that are considered very safe.

2. Liquidity

Liquidity refers to the ability to easily "cash in" at any time with a minimal risk of **losing** some portion of principal or **interest**. Maturities of time certificates issued by banks and **savings & loan** companies are selected in anticipation of disbursement needs. **Portions of** or the total amount invested with the Local **Agency Investment Fund** can be **withdrawn** in a 24-hour period.

3. Yield

Yield is the potential dollar earnings an investment can provide and is also described as the rate of return. The City attempts to obtain the highest yield possible when **selecting** an investment provided the criteria for **safety** and **liquidity** are met.

Policy Constraints

The City operates its investment program with many state and self imposed constraints. It does not **speculate**, purchase stocks or corporate bonds. It **does** not deal in reverse **repurchase agreements** unless specifically authorized by **Council**. The portfolio is carefully monitored to assure prudent management.

safekeeping

All securities that **may be purchased**, including collateral from repurchase agreements from brokers, broker/dealers or banks, **are** transferred to the City's **designated** bank. The City's designated bank sends to the City a mnthly statement of what is **being** safekept which **shall** be reconciled mnthly with **the City's** records.

Investment Controls

The City has developed a System of Internal Investment Controls and a Segregation of Responsibilities of Investment Functions (Exhibit A) in order to assure an adequate system of internal control over the investment function.

A Finance Department Investment Committee has been developed to ensure controls are in order and prudent investment procedures are followed. Members of the Committee are as follows:

- Finance Director/Treasurer
- Assistant Finance Director
- Revenue/Collections Technician and
- Department Secretary

Investment Reports

Annually, the Treasurer will submit a Statement of Investment policy to the City Council for their approval. Monthly, the Treasurer shall submit a report to the City Council and City Manager showing the type of investment, institution, date of maturity, amount of deposit, market value of all securities with a maturity of over twelve months, rate of interest, specify in detail each investment made in repurchase agreements and other such data as may be required by the City.

Investment Audit

Annually, there shall be an external audit of the City's investment program to assure compliance with investment policy and controls.

Investment Performance Evaluation

Performance evaluation should include certain benchmark measures of rate of return. Benchmarks used for 1989-90, with average market rate of return and Lodi's comparison, are as follows:

<u>Benchmark Measures</u>	<u>1989-90 Average Yield</u>
90-day U.S. Treasury Bills	7.980%
Federal Fund Rate	8.461%
Merrill Lynch Ready Asset (Money Market Fund)	7.980%
Local Agency Investment Fund	8.786%
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City of Lodi	8.829%

EXHIBIT B

INTERNAL CONTROL GUIDELINES
SEGREGATION OF TREASURER RESPONSIBILITIES

The following internal control guidelines and segregation of responsibilities of Treasurer functions have been compiled by the California Municipal Treasurers Association, in cooperation with the California Municipal Finance Officers Association and the County Treasurers Association.

OBJECTIVES OF INTERNAL CONTROL

Internal control is the plan of organization and all the related systems established by the management's objective of ensuring, as far as practicable:

- the orderly and efficient conduct of its business, including adherence to management policies
- the safeguarding of assets
- the prevention or detection of errors and fraud
- the accuracy and completeness of the accounting records
- the timely preparation of reliable financial information.

LIMITATIONS OF INTERNAL CONTROL

No internal control system, however elaborate, can by itself guarantee the achievement of management's objectives. Internal control can provide only reasonable assurance that the objectives are met, because of its inherent limitations, including:

- management's usual requirement that a control be cost-effective
- the direction of most controls at recurring, rather than unusual, types of transactions
- human error due to misunderstanding, carelessness, fatigue or distraction
- potential for collusion that circumvents controls dependent upon segregation of functions
- potential for a person responsible for exercising control abusing that responsibility; a member of management is frequently in a position to override controls which management has set up.

ELEMENTS OF INTERNAL CONTROL

Elements of a system of internal control are **the** means by which an organization *can* satisfy the **objectives** of internal control. The elements are:

1. Organization
specific **responsibility** for the performance of duties **should** be assigned and **lines** of authority and reporting clearly identified and **understood**.

2. Personnel
Personnel should have capabilities **commensurate** with their responsibilities. Personnel selection and training **policies** together with the **quality** and quantity of supervision *are* thus important.

3. Segregation of Functions
Segregation of incompatible functions reduces the risk that a person is in a position both to perpetrate **and** conceal errors or fraud in the normal **course** of duty. If **two** parts of a transaction are **handled** by different **people**, collusion is necessary to conceal errors or fraud. In particular, **the** functions that should be considered **when** evaluating segregation of functions are authorization, execution, **recording**, **custody** of assets **and** performing reconciliations,

4. Authorization
All transactions should be authorized by an appropriate responsible individual. The responsibilities and **limits** of authorization should be clearly **delineated**. **The** individual or group authorizing a specific transaction or granting general authority for **transactions** should be in a position commensurate with *the* nature and **significance** of the transactions. Delegation of authority to authorize transactions **should** be handled very carefully,

5. Controls Over an Accounting System
Controls over an accounting system include the **procedures**, both manual and EDP, carried out independently to ascertain that **recorded** transactions **are complete**, valid, authorized and properly recorded.

6. Safeguarding of Assets and Records
Controls should be **in place** to prevent and detect loss, theft or deterioration of assets. In addition, safeguards are **necessary** to prevent **the** loss or destruction of **records** and **documentation**. These controls **would involve** custodial controls which *are* designed to prevent or detect unauthorized access **to** or **use** of assets and records and accountability controls which **compare** accounting records to assets to determine whether recorded assets exist and are properly recorded in accordance with generally accepted accounting principals (G.A.A.P.).

7. Management
These are the controls exercised by management including day-to-day supervision, overall supervisory **controls**, management review of significant transactions, management review of accounts and comparison thereof to budgets, management review of the **adequacy** of internal control and the internal audit function.

5. Safeguarding of *Assets* and Records:

- . Reconciliation of Treasurer's records to the Accounting records.....Finance Department Secretary
- Reconciliation of Treasurer's records to bank statements and safekeeping records..Revenue/Collections Technician
- . Recording interest received. Revenue/Collections Technician
- Review of: (a) financial institution's financial condition.....Treasurer
 (b) safety, liquidity and potential yields of investment instruments.....Treasurer
 and (c) reputation and financial condition of investment Brokers/Dealers... ..Treasurer
- *Periodic* reviews of collateral should be performed.....Treasurer

6. Management's periodic review of the investment portfolio as prepared by the Treasurer - key areas which should be reviewed are investment types, purchase price, market values, maturity dates and investment yields as well as conformance to stated investment policy.....Independent Auditors

7. To achieve the objectives of internal control, the Treasurer may delegate or transfer any of the above responsibilities except those of City Council.

RESOLUTION NO. 90-146
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A RESOLUTION ADOPTING AN ANNUAL STATEMENT OF INVESTMENT
POLICY AND INTERNAL CONTROL GUIDELINES
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WHEREAS, legislation enacted by the Legislature of the State of California requires the adoption by cities of an annual investment policy; and

WHEREAS, the City Council of the City of Lodi wishes to implement a program of internal controls by which the City's investment program shall be administered;

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Lodi hereby adopts an investment policy and internal control guidelines as set forth herein.

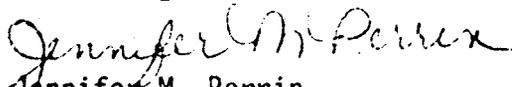
Dated: September 19, 1990
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I hereby certify that Resolution No. 90-146 was passed and adopted by the City Council of the City of Lodi in a regular meeting held September 19, 1990 by the following vote:

Ayes : Council Members - Hinchman, Olson, Pinkerton, Reid and Snider (Mayor)

Noes : Council Members- None

Absent: Council Members - None


Jennifer M. Perrin
Deputy City Clerk

for Alice M. Reimche
City Clerk

90-146