

RESOLUTION NO. 87-121

A RESOLUTION ADOPTING AN ANNUAL STATEMENT OF INVESTMENT
POLICY AND INTERNAL CONTROL GUIDELINES

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.

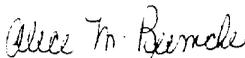
Dated: September 2, 1987

I hereby certify that Resolution No. 87-121 was passed and adopted by the City Council of the City of Lodi in a regular meeting held September 2, 1987 by the following vote:

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

Noes: Council Members - None

Absent: Council Members - Pinkerton


Alice M. Reimche
City Clerk

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
- . 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 judgement 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 monthly statement of what is being safekept which shall be reconciled monthly 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 & Collection 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 12 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 1986-87, with average market rate of return and Lodi's comparison, are as follows:

<u>Benchmark Measures</u>	<u>1986-87 Average Yield</u>
90-day U.S. Treasury Bills	5.53%
Federal Fund Rate	6.35%
Merrill Lynch Ready Asset (Money Market Fund)	5.63%
Local Agency Investment Fund	7.52%

City of Lodi	6.73%

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 on 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.

SEGREGATION OF RESPONSIBILITIES OF THE TREASURER FUNCTIONS
 CITY OF LODI

Function	Responsibility
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- | | |
|--|--|
| 1. Authorization of investment transactions: | |
| . Formal investment policy should be | |
| - prepared by..... | Treasurer |
| - submitted to..... | City Council |
| . Investment transactions should be approved by..... | Treasurer |
| 2. Execution of investment transactions:..... | Assistant Finance Director AND Revenue/Collection Technician |
| 3. Timely recording of investment transactions: | |
| . Recording of investment transactions in the Treasurer's records..... | Finance Department Secretary |
| . Recording of investment transactions in the accounting records..... | Senior Account Clerk |
| 4. Verification of investment, i.e., match broker confirmation to Treasurer's records..... | Treasurer |

Function Responsibility

- 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/Collection Technician
 - . Recording interest received.....Revenue/Collection 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.