CITY OF LAKE ELSINORE
INVESTMENT POLICY
JUNE 2019

1) INTRODUCTION

The purpose of this document is to set out the policies and procedures that enhance opportunities for a prudent and systematic investment program and to organize and formalize investment-related activities.

The investment policies and practices of the City of Lake Elsinore (the "City") are, in every case, subject to and limited by applicable provisions of state law and to prudent money management principles. All funds will be invested in accordance with the City's Investment Policy, and applicable provisions of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (Section 53600 et seq.).

2) SCOPE

The investment policy applies to all financial assets, except bond proceeds and retirement funds, accounted for in the City of Lake Elsinore Comprehensive Annual Financial Report (CAFR) and any new fund created by the City Council, unless specifically exempted. The investment of bond proceeds will be governed by the provisions of relevant bond documents.

3) OBJECTIVES

The primary objectives, in priority order, of the City's investment activities shall be:

A) Safety of Principal

Safety of principal is the foremost objective of the City. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The City shall seek to preserve principal by mitigating two types of risk: credit risk and interest rate risk.

1. **Credit Risk:** The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

    - Limiting investments to the types of securities listed in the Authorized Investments section of this Investment Policy.

    - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

2. **Interest Rate Risk:** The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

   - Structuring the investment portfolio with marketable securities so that securities can be liquidated to meet cash flow needs or structuring the portfolio to mature to meet cash requirements for ongoing operations.

B) Liquidity

Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the City's investment portfolio will remain sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.

C) Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

4) PRUDENCE

In managing its investment program, the City will observe the "Prudent Investor" standard as stated in Government Code Section 53600.3, applied in the context of managing an overall portfolio. Investments will be made with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the City, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

This standard of prudence shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

5) PERFORMANCE EVALUATION

Investment performance is to be continually monitored and evaluated by the City Manager or his designee. The City's primary portfolio performance will be measured against a total return index with securities with similar attributes and similar average maturity, e.g., the Merrill Lynch 1-5 Year U.S. Treasury Index.

6) DELEGATION OF AUTHORITY

In accordance with the City Council Policy of the City of Lake Elsinore and under authority granted by the City Council, the City Treasurer's function and responsibility for investing the unexpended cash in the City Treasury has been delegated to the City Manager or his designee.

The responsibility for conducting the City's investment program has been delegated to the City Manager or his designee, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for all investment activities.

No person may engage in an investment transaction except as provided under the terms of the policy and the procedures established by the City Manager or his designee. Portfolio management and transactions may be delegated to an independent investment advisor registered with the SEC.

7) INVESTMENT PROCEDURES

The City Manager or his designee shall establish written investment procedures and a system of controls to regulate the operation of the investment program and the activities of subordinate officials consistent with this policy. The procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of the policy and the procedures established by the City Manager or his designee.

8) ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper executions of the investment program, or impairs their ability to make impartial investment decisions. Additionally, the City Officials are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

9) SAFEKEEPING AND CUSTODY

To protect against fraud or embezzlement of losses caused by collapse of an individual securities dealer, all deliverable securities owned by the City shall be held in safekeeping by a third party bank / trust department.

All deliverable security transactions entered into by the City of Lake Elsinore shall be conducted on delivery-versus-payment (DVP) basis. All deliverable securities purchased or acquired shall be delivered to the City of Lake Elsinore by book entry, physical delivery, or by third party custodial agreement as required by CGC 53601.

Securities held custody of the City shall be independently audited on an annual basis to verify investment holdings. All exceptions to this safekeeping policy must be approved by the City Manager or his designee in written form and included in monthly reporting to the City Council.

10) DIVERSIFICATION

The City of Lake Elsinore will diversify its investments by security type and institution. It is the policy of the City of Lake Elsinore to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. Diversification strategies shall be determined and revised periodically. In establishing specific diversification strategies, the following general policies and constraints shall apply:

a) Maturities selected shall provide for stability of income and liquidity
b) Disbursement of payroll dates shall be covered through maturity investments and marketable securities

11) INTERNAL CONTROL

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Finance Staff on a monthly basis.

An independent analysis by an external auditor shall be conducted annually to review internal control, account activity, and compliance with policies and procedures and reported to City Council.

12) REPORTING

Each month the City Manager or his designee shall submit to City Council, and the City Treasurer a monthly report of investment transactions. The report shall also include a detailed security report. If all funds are placed in LAIF, FDIC- insured accounts, and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The City Manager or his designee shall maintain a complete and timely record of all investment transactions.

Additionally, every quarter the City Manager or his designee shall render to the City Council and the City Treasurer a quarterly investment report, which shall include, at a minimum, the following information for each individual investment:

a) Type of investment instrument (i.e., Treasury Bill, medium term note)
b) Issuer name (i.e., General Electric Credit Corporation)
c) Purchase date (trade and settlement date)
d) Maturity date
e) Par value
f) Purchase price
g) Current market value and the source of the valuation
h) Overall portfolio yield based on cost

The quarterly report also shall (a) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance; (b) include a description of any of the City's funds, investments, or programs that are under the management of contracted parties, including lending programs; and (c) include a statement denoting the ability of the City to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

13) AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

If the City plans to initiate investment transactions on its own behalf, excluding investments made directly with an issuer, the City Manager or his designee will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness with at least five years of operation. The City Manager or his designee will review the financial condition and registrations of qualified bidders annually.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

a) Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines to be submitted annually
b) Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
c) Proof of state registration
d) Complete broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
e) Certification of having read and understood and agreeing to comply with the City's Investment Policy prior to commencing trading
f) Evidence of adequate insurance coverage

An annual review of the financial condition and registrations of qualified bidders will be conducted by the City Manager or his designee.

The City may also use broker/dealers approved and evaluated by a SEC registered investment advisor acting in a fiduciary capacity for the City.

The City shall use a competitive process, whenever practical to obtain at least 3 competing bids from different broker/dealers for every purchase or sale of a security.

14) AUTHORIZED INVESTMENTS

Investment of City funds is governed by the California Government Code sections 53601 et seq. Unless otherwise specified in this section, no investment shall be made in any security, other than a security underlying a repurchase agreement as authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years. The City Manager or his designee is authorized to purchase the following investment instruments:

A. U.S. Treasury, notes, bonds, bills, or other certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

B. Federal agency or United States government-sponsored enterprise obligations, participation, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. No more than 40% of the City's portfolio may be invested in any one federal agency.

C. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency, provided that such obligations are rated in one of the top three rating categories by a NRSRO and are general obligation bonds or essential service bonds secured with revenue from a water, sewer, power, or electric system.

D. Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California, provided that such obligations are rated in one of the top three rating categories by a NRSRO and are general obligation bonds or essential service bonds secured with revenue from a water, sewer, power, or electric system.

E. Repurchase Agreements to be used solely as short-term investments not to exceed 30 days. The City may enter into repurchase agreements with primary government securities dealers rated in a rating category of "A" or its equivalent or better by two nationally recognized rating services. Counterparties should also have (i) a short-term credit rating in the highest category by a nationally recognized statistical rating organization (NRSRO); (ii) minimum assets and capital size of $25 billion in assets and $350 million in capital; (iii) five years of acceptable audited financial results; and (iv) a strong reputation among market participants.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying repurchase agreements must be delivered to the City's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each repurchase agreement must equal or exceed 102% of the total dollar value of the money invested by the City for the term of the investment. For any repurchase agreement with a term of more than one day, the value of the underlying securities must be reviewed on an on- going basis according to market conditions. Market value must also be calculated each time there is a substitution of collateral. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

The City or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to repurchase agreement. The City shall have properly executed a Master Repurchase Agreement with each counter party with which it enters into repurchase agreements.

F. Bills of exchange or time drafts drawn on and accepted by a commercial bank and brokered to investors in the secondary market, otherwise known as bankers' acceptances. Purchases of bankers' acceptances may not exceed 180 days' maturity, or 40% of the City's surplus money that may be invested. However, no more than 30% of the City's surplus funds may be invested in the bankers' acceptances of any one commercial bank. Eligible bankers' acceptances are restricted to issuing financial institutions with short-term paper rated in the highest category by one NRSRO.

G. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2) below:

1. The entity meets the following criteria: (a) is organized and operating in the United States as a general corporation. (b) Has total assets in excess of five hundred million dollars ($500,000,000). (c) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a NRSRO.

2. The entity meets the following criteria: (a) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (b) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (c) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

The City may invest no more than 25% of its portfolio in eligible commercial paper with a maximum maturity of 270 days, and the City may purchase no more than 10% of the outstanding commercial paper of any single issuer.

H. Medium term notes with a maximum remaining maturity of five years or less issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of “A” or its equivalent or better by a NRSRO and shall not be on credit watch for a potential downgrade by a NRSRO. Purchases of medium term notes may not exceed 30% of the City's portfolio.

I. FDIC-insured or fully collateralized bank deposits, including, but not limited to, demand deposit accounts, savings accounts, market rate accounts, and time deposits. To be eligible to receive City deposits, the financial must be located in California and have received a minimum overall satisfactory rating under the Community Redevelopment Act, for meeting the credit needs of California Communities in its most recent evaluation. The amount on deposit in any financial institution shall not exceed the shareholder’s equity. Bank deposits are required to be collateralized as specified under Government Code Section 53630 et. Seq. The City Manager or his designee, at his/her discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The City shall have a signed agreement with any depository accepting City funds per Government Code Section 53649. The maturity of time certificate of deposits (TCDs) may not exceed 1 year. There is no limit on the percentage of the portfolio that may be invested in bank deposits. However, a maximum of 20 percent of the portfolio may be invested in TCDs.

J. Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally- or state-licensed branch of a foreign bank. Purchases are limited to securities rated in a rating category of “AA” (long-term) or “A-1” (short-term) or their equivalents or better by a NRSRO. Purchases of negotiable certificates of deposit may not exceed 30% of the portfolio.

K. State of California's Local Agency Investment Fund (LAIF). Investment in LAIF may not exceed $65 million. The LAIF portfolio should be reviewed periodically.

L. California Asset Management Program (CAMP).

M. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). The purchase price of shares shall not exceed 20 percent of the investment portfolio of the City. To be eligible for investment pursuant to this subdivision these companies shall either:

1. Attain the highest ranking letter or numerical rating provided by not less than two of the three largest NRSRO or

2. Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds and with assets under management in excess of $500,000,000.

N. Insured savings account or money market account. To be eligible to receive local agency deposits, a financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation.

O. Supranationals-specifically the International Bank for Reconstruction and Development, International Finance Corporation, and Inter-American Development Bank.

1. Purchases restricted to debt denominated in U.S. dollars.

2. Supranationals eligible for investment under this subsection shall be rated in a rating category of “AA” or its equivalent or better by a NRSRO.

3. Purchases of supranationals may not exceed 30% of the City’s portfolio.

P. Asset-Backed Securities (ABS)

1. ABS eligible for investment under this subsection must be rated in a rating category of “AA” or its equivalent or better by a NRSRO with a maximum remaining maturity of 5 years or less.

2. Purchase of ABS may not exceed 20% of the City’s portfolio.

Credit criteria and sectors and issuers percentages for investments listed in this section will be determined at the time the security is purchased. A decline in the overall investment balances that causes the percent to any investment above its maximum policy limit will not be considered out of compliance. The City may from time to time be invested in a security whose rating is downgraded. In the event a rating drops below the minimum allowed rating category for that given investment type, the City Manager or his designee shall notify the City Treasurer, and City Council and recommend a plan of action. Notwithstanding anything herein to the contrary, with the exception of the U.S. Treasury, federal agency institutions, and government sponsored enterprises no more than 5% of the City’s portfolio may be invested in securities issued by any one corporate, financial, or municipal issuer.

15) PROHIBITED INVESTMENTS

Any security type or structure not specifically approved by this policy is hereby specifically prohibited. Security types which are thereby prohibited include, but are not limited to, inverse floaters, derivatives, range notes, interest only strips that are derived from a pool of mortgages, or in any investment that could result in zero interest accrual if held to maturity.

16) LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type or percentage allocations will be deemed to be incorporated into the City of Lake Elsinore’s investment policy and will supersede any and all applicable language.

17) INTEREST EARNINGS

All moneys earned and collected from investments authorized in this policy shall be allocated quarterly to various fund accounts based on the cash balance in each fund as a percentage of the entire pooled portfolio.

18) POLICY REVIEW

The City of Lake Elsinore’s investment policy shall be adopted by the City Council on an annual basis. This investment policy shall be reviewed at least annually to insure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to the City Council for approval.

GLOSSARY

Asset-Backed Securities (ABS): Bonds created from various types of consumer debt. The primary types of ABS are mortgages, home equity loans, auto loans, leases, credit card receivables and student loans.

Bankers Acceptance: A draft or bill or exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill.

Bond Proceeds: The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These monies are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

Broker: Someone who brings buyers and sellers together and is compensated for his/her service.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large- denomination CD's are typically negotiable.

Collateralization: Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

Commercial Paper: An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

Comprehensive Annual Financial Report (CAFR): The official annual report for the City of Lake Elsinore. It includes five combine statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

Dealer: Someone who acts as a principal in all transactions, including buying and selling from his/her own account.

Delivery versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Derivative: Securities that are based on, or derived from, some underlying asset, reference date, or index.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Deposit Insurance Corporation (FDIC): Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently $250,000) per account.

Interest Rate: The annual yield earned on an investment, expressed as a percentage.

Issuer: Any corporation, government unit or financial institution which borrows money through the sale of securities.

Liquidity: Refers to the ability to rapidly convert an investment into cash.

Local Agency Investment Fund (LAIF): A special fund in the State Treasury which local agencies may use to deposit funds for investment. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one per cent of the earnings.

Local Government Investment Pool (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Risk: Defined as market value fluctuations due to overall changes in the general level of interest rates. Adverse fluctuation possibilities shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis, and eliminating the need to sell securities for the sole purpose of short- term speculation mitigates market risk.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Maturity: The date the principal or stated value of an investment becomes due and payable.

Medium-Term Notes: Instruments issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

Member: Refers to a governmental entity which is a signatory to the Joint Powers Agreement establishing the California Joint Powers Insurance Authority.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Negotiable: Term used to designate a security, the title to which is transferable by delivery.
Portfolio: Collection of securities held by an investor.

Principal: Describes the original cost of a security. It represents the amount of capital or money which the investor pays for the investment.

Purchase Date: The date in which a security is purchased for settlement on that or a later date.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

Repurchase Agreement (Repo): Contractual arrangements between a financial institution or dealer and an investor. The investor puts up their funds for a certain number of days at a stated yield. In return, they take title to a given block of securities as collateral. At maturity, the securities are repurchased and the funds are repaid with interest.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Supranationals: Debt of an international or multi-lateral financial agency.

Treasury Bills: United States Treasury Bills which are short term, direct obligations of the United States Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of $10,000 in multiples of $5,000 above the minimum. Issued in book entry form only, T-bills are sold on a discount basis.

Treasury Notes: Medium-term coupon- bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

United States Government Agencies: Instruments issued by various United States Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield: The rate of annual income return on an investment, expressed as a percentage. (a) Income Yield is obtained by dividing the current dollar income by the current market price for the security. (b) Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

INVESTMENT PROCEDURES
INTERNAL CONTROL GUIDELINES

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 the segregation of functions.
- Potential for a person responsible for exercising control abusing that responsibility; a responsible staff member could be 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. These 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 different people handle two parts of a transaction, 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

An appropriate responsible individual should authorize all transactions. 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 computerized, carried out independently to ascertain that transactions are complete, valid, authorized, and properly recorded.

INVESTMENT PROCEDURES
CASH CONTROLS

PROCEDURES PERFORMED BY EXTERNAL AUDITORS WITH RESPECT TO CASH RECEIPTS

A. City procedures and controls are reviewed. Some of the system strengths are:

1. Receipts are controlled upon receipt by proper registration devices.
2. Receipts are reconciled on a daily basis.
3. Amounts are deposited intact.
4. Bank reconciliations are reviewed.
5. Prompt posting of cash receipt entries in books.
6. Proper approval required for write-offs of customer accounts.
7. Checks are restrictively endorsed upon receipt or when run through cash register.
8. Adequate physical security over cash.
9. Individuals that handle cash do not post to customer account records or process billing statements.
10. Adequate supervision of Finance Department operations.

B. Significant revenues are confirmed directly with payer and compared with City books to make sure amounts are recorded properly.

C. Cash balances are substantiated by confirming all account balances recorded in books. Bank reconciliations are reviewed for propriety and recalculated by the auditor. All significant reconciling items on bank reconciliations are verified as valid reconciling items by proving to subsequent bank statements.

Function	Responsibility
1. Formal Investment Policy should be:	
* Prepared By:	Senior Accountant or Finance Administrator
* Reviewed and Approved By:	City Manager or his designee
* Approved By:	City Council
2. Develop Investment Strategy:	Registered Investment Advisor
3. Investment Strategy should be approved by:	City Manager or his designee
4. Execution of investment transactions:	Registered Investment Advisor
5. Timely recording of investment transactions:	Senior Accountant or Finance Administrator (but reviewed by City Manager or his designee)
Recording of investment transactions in the City's records:	Senior Accountant or Finance Administrator (but reviewed by City Manager or his designee)
Recording of investment transactions in the accounting records:	Account Specialist or Senior Accountant
6. Verification of investment, i.e., match broker confirmation to City's records:	Senior Accountant or Finance Administrator (but reviewed by City Manager or his designee)
7. Safeguarding of Assets and Records:	
Reconciliation of City's records to the accounting records:	Senior Accountant or Finance Administrator
Reconciliation of City's records to bank statements and safekeeping records:	Senior Accountant or Finance Administrator (but reviewed by City Manager or his designee)
8. Annual review of (a) financial institution's financial condition, (b) safety, liquidity, and potential yields of investment instruments:	City Manager or his designee
9. No less than an annual review of investment portfolio as prepared by City Manager or his designee:	Independent Auditors