City of Aliso Viejo

ADMINISTRATIVE POLICY

SUBJECT	APPROVED BY	PROCEDURE NO.	EFF. DATE	PAGE
INVESTMENT GUIDELINES, STRATEGY AND INTERNAL CONTROL	Dave Doyle CITY MANAGER	**11**	**7/1/2015**	**1 of 4**

PURPOSE

The purpose of this policy is to establish a framework for the investment of surplus City funds within the established internal control procedures for treasury functions.

POLICY

INVESTMENT GUIDELINES AND STRATEGY

GUIDELINES

1. Investment Transaction - Every investment transaction must be authorized and reviewed by the Director of Finance/City Treasurer or his/her designee.

2. Pooled Cash - Whenever practical, local agency cash is consolidated into one bank account and invested on a pooled concept basis. Interest earnings are allocated monthly according to month-end cash and investment balances for each fund.

3. Competitive Bids - Purchases and sales of securities are made on the basis of competitive offers and bids.

4. Cash Forecast - The cash flow for the City is analyzed with the receipt of revenues and maturity of investments scheduled so that adequate cash will be available to meet disbursement requirements.

5. Investment Limitations - Security purchases and holdings are maintained within statutory limits imposed by the California Government Code.

6. Liquidity - The marketability of a security is considered at the time of purchase, as the security may have to be sold at a later date to meet unanticipated cash demands.

7. Diversification - The portfolio should consist of various types of securities, issuers, and maturities.

STRATEGY

1. Economic Forecasts - Economic Forecasts are obtained periodically from economists and financial experts through bankers and brokers to assist the Director of Finance/City Treasurer or his/her designee with the formulation of an investment strategy for the local agency.

2. Implementing Investment Strategy - Investment transactions are executed to conform to anticipated interest rate trends and the current investment strategy plan.

3. Rapport - A close working relationship is maintained with public works, city staff, and large vendors of the city. The objective is to pinpoint when large disbursements will clear the City's bank account. It is essential for good cash control that such large expenditures be anticipated, estimated as to dollar amount, and communicated to the Director of Finance/City Treasurer or his/her designee for liquidity planning purposes.

4. Preserve Portfolio Value - Field standards are developed in order to maintain earnings near the market and to preserve the value of the portfolio.

INTERNAL CONTROL

I. OBJECTIVES OF INTERNAL CONTROL

1. To effectively and efficiently conduct business, including adherence to financial and management policies.
2. Safeguarding its assets and prevention or detection of errors and fraud.
3. Timely preparation of accurate and reliable financial information.
4. Compliance with applicable laws and regulations.

II. COMPONENTS OF INTERNAL CONTROL

1. Control Environment - The control environment is the set of standards, processes, and structures that provides the basis for carrying out internal control across the organization. Management establishes the tone at the top regarding the importance of internal control, including expected standards of conduct, organizational structure, and assignment of authority and responsibility.

2. Risk Assessment - Risk assessment involves a dynamic process for identifying and analyzing risks in achieving the entity's objectives. Risk assessment requires management to consider the impact of possible changes in the internal and external environment that may render established internal controls ineffective.

3. Control Activities - Control activities are the actions established through policies and procedures to ensure that management's directives to mitigate risks are achieved. Segregation of duties is typically built into the development of control activities and may include authorizations, verifications, reconciliations, and reviews.

4. Communication - Communication occurs both internally and externally and provides the organization with the information needed to carry out day-to-day activities.

5. Audits – Audits are the process through which activities can be monitored and evaluated for any internal control deficiencies and communicated to management for taking corrective action.

III. ELEMENTS OF INTERNAL CONTROL

1. Organization - Responsibility for the performance of duties should be assigned and lines of authority and reporting clearly identified and delineated.

2. Segregation of functions - Segregation of functions reduces the risk for an individual to be able to perpetrate and conceal errors or commit fraud in the normal course of duty. If two parts of a transaction are handled by different individuals, collusion is necessary to conceal errors or commit fraud. Functions that should be considered when evaluating segregation of duties are authorization, execution, recording, custody of assets, and reconciliation.

3. Authorization - All transactions should be approved by an authorized 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.

4. 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.

IV. LIMITATIONS OF INTERNAL CONTROL

Internal control, no matter how well-designed, implemented, and conducted, can only provide reasonable assurance to management of the achievement of an entity's objectives. Inherent limitations of internal control may include:

1. Recurring, rather than unusual, types of transactions.
2. Human error due to misunderstanding, carelessness, fatigue, or distraction.
3. Potential for collusion that circumvents controls defined by the segregation of functions.
4. Possibility of a management override of the system, despite an otherwise effective system of internal control.

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SEGREGATION OF RESPONSIBILITIES FOR TREASURY FUNCTIONS

Function	Responsibility
1. Formal investment policy should be	
* Prepared by	Director of Finance/City Treasurer
* Approved by	City Council
2. Develop Investment Strategy	Director of Finance/City Treasurer or Registered Investment Advisor
3. Receive quotes and recommend investments for purchase	Director of Finance/City Treasurer, Senior Accountant
4. Approve investment transactions	Director of Finance/City Treasurer, City Manager
5. Execute investment transactions	Director of Finance/City Treasurer
6. Approve investment transactions for compliance with Investment policy and/or State law	Senior Accountant
7. Record investment transactions in the City's financials	Senior Accountant/Financial Analyst
8. Verify investment i.e., match broker confirmation to City records	Director of Finance/City Treasurer Senior Accountant
9. Confirm LAIF and Bank Wires	Director of Finance/City Treasurer Senior Accountant/Financial Analyst
10. Safeguard assets and records:	
* Reconciliation of City's records to bank statements and safekeeping of records	Senior Accountant/Financial Analyst
* Annual review of (a) financial institution's financial condition, and (b) safety, liquidity, and potential yields of investment instruments	Director of Finance/City Treasurer, City Manager
11. Annual review of investment portfolio	External Independent Auditors

The segregation of responsibilities as outlined herein is intended to enhance the City's internal controls over treasury functions. It should be noted that from time to time, due to the limited size of the Financial Services staff, segregation of responsibilities may be amended in order to fulfill the business needs of the organization.