

March 7, 2012

To: Honorable Paul Beeman, Presiding Judge
600 Union Ave., Fairfield, CA 94533

From: Hale Conklin
Treasurer, City of Rio Vista

Re: Response to Grand Jury Report of January 12, 2012: "City Treasurer Functional Review"

Honorable Judge Beeman,

As mandated by California Penal Code section 933.05, the Treasurer of the City of Rio Vista responds to the Findings and Recommendations contained in the 2011-2012 Grand Jury Report of January 12, 2012, concerning the (Solano County's) City Treasurers' Functional Review.

Finding 13

The City of Rio Vista Treasurer did not issue accounting reports required by California Government Code §41004, which stated, "Regularly, at least once each month, the city treasurer shall submit to the city clerk a written report and accounting of all receipts, disbursements, and fund balances. He shall file a copy with the legislative body."

Recommendation 13

City of Rio Vista Treasurer ensure that the monthly reporting requirements identified by California Government Code §41004 are performed.

Response to Finding 13

The City Treasurer agrees with this Finding.

The Recommendation cannot be implemented. The City Treasurer does not have access to the necessary financial and accounting records. The City Finance Department (which reports to the City Manager and not to the Treasurer) maintains those files and has therefore been held responsible for generating and distributing this report and accountings. For reasons outside of the Treasurer's control, the Finance Department has not produced these reports reliability.

The City Treasurer is unable to ensure that the monthly reporting requirements identified by California Government Code §41004 will be performed.

Finding 14

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JUDGE PAUL L. BEEMAN
DEPARTMENT 1

The Rio Vista Treasurer did not comply with City of Rio Vista, California, Statement of Investment Policy 2010-11. For example, the Treasurer neither established written procedures nor implemented a system of controls for the City's investment program.

Recommendation 14

City of Rio Vista Treasurer comply with City of Rio Vista, California, Statement of Investment Policy 2010-11.

Response to Finding 14

The City Treasurer agrees with this Finding.

The Recommendation will be implemented in the future. Investment Policy 2010-11, as well as prior policies, assumed incorrectly that the City Treasurer was more involved with the mechanics of the City's investments than he actually was. In January of this year, the City's Investment Policy was re-written to reflect how the City's investment program is in fact being managed; and we are enclosing for your review a copy of the revised policy, "Investment Policy 2012-2013", which, when adopted by our City Council, will put the City and the City Treasurer in full compliance with the City's written investment policy.

Respectfully submitted,



Hale Conklin
Treasurer, City of Rio Vista.

encl: Investment Policy 2012-2013
cc (electronically): cmstrickland@solano.courts.ca.gov

City of Rio Vista, California
Statement of Investment Policy
2012-2013

1.0 Policy:

It is the policy of the City of Rio Vista to invest public funds in a manner which will provide the highest return with the maximum security while meeting the daily cash flow demands of the city and conforming to all state and local statutes governing the investment of public funds.

2.0 Scope:

It is intended that this policy cover all funds and investment activities under the direct authority of the City.

3.0 Prudence:

Investments shall be made with judgment and care--under circumstances then prevailing--which persons of prudence, discretion, and intelligence exercise in the management of financial affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

3.1 The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with the 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.

4.0 Objective:

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

4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that the potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

4.2 Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.

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

5.0 Delegation of Authority:

Authority to manage the City's investment program is derived from Government Code Section 53635. Management responsibility for the investment program is hereby delegated to the City Treasurer, who shall ensure there are written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, wire transfer agreements, collateral/depository agreements and banking service contracts. 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 this policy and the procedures established above. The City Finance Director or his/her designate shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

6.0 Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose to the City Manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, and particularly with regard to the time of purchases and sales.

7.0 Strategy

Strategy refers to the plan to manage financial resources in the most advantageous manner.

1. **Economic Forecasts.** Obtain economic forecasts from economists and financial experts through bankers and broker/dealers in order to assist in the formulation of investment plans.
2. **Implementing Investment Strategy.** Execute investment transactions, which conform to current and anticipated cash requirements, interest rate trends, and stated investment strategy.
3. **Rapport.** Maintain a close working relationship with the departments of the City to anticipate and accommodate disbursements of City funds. It is essential for good cash control that such large expenditures be anticipated, estimated as to dollar amount and communicated to the City Manager for liquidity planning purposes.
4. **Preserve Portfolio Value.** Develop yield standards in order to maintain earnings near the market and to preserve the value of the portfolio.

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

8.0 Authorized and Suitable Investments:

The City is empowered by statute to invest in the following types of securities:

1. **Local Agency Investment Fund (LAIF).** LAIF is managed by the State of California Treasurer's office with total investments from any one individual agency not to exceed \$40 million or the maximum as amended from time to time. No more than fifteen (15) transactions

per month per account are allowed by LAIF. A minimum transaction is \$10,000. Funds are available on demand.

2. **Securities of the U.S. Government.** Securities of the U.S. Government include U.S. Treasury Bills, Notes, and Bonds.

U.S. Treasury Bills (T-Bills) are obligations of the U.S. Government with a maturity of one year or less. They are non-interest bearing and sold on a discount basis. The face amount is paid at maturity.

U.S. Treasury Notes are issued by the U.S. Treasury with maturities from two to ten years. They are issued in coupon form and many issues are also available in registered form, Interest is payable at six month intervals until maturity.

U.S. Treasury Bonds are issued by the U.S. treasury with maturities of ten to thirty years.

3. **Securities of U.S. Government Agencies.** The City may invest funds in debt securities of the following U.S. Government sponsored agencies.

- a. Government National Mortgage Association (Ginnie Mae)
- b. Federal National Mortgage Association (Fannie Mae)
- c. Federal Home Loan Mortgage Corporation (Freddie Macs)
- d. Federal Home Loan Bank

4. **Time Certificates of Deposit (TCD).** TCDs shall be made only with banks and savings and loan institutions, which are insured by the FDIC. A standard form Contract for deposit is required for each TCD. Unless collateralized by eligible securities as provided in sections 53651 and 53652 of the California Government Code and allows for liquidation without penalty, the maximum amount of Certificates of Deposit to be placed with any single institution shall be \$100,000.00.

5. **Medium Term Notes.** These notes have a maximum maturity of five years to be eligible for investment by the City, notes must be rated "A" or better by Standard and Poor's or by Moody's rating services. Purchase of medium term notes may not exceed 30% of the City's surplus funds.

6. **Passbook Savings Account Demand Deposits.** Savings accounts shall be maintained only with banks and savings and loan institutions, which are insured by the FDIC.

7. **Money Market Account.** Money Market accounts shall be maintained only with banks and savings and loan institutions, which are insured by the FDIC.

9.0 Safekeeping and Custody:

All security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. A third party custodian designated by the Finance Director or his/her designate and evidenced by safekeeping receipts will hold securities.

10.0 Diversification:

The City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

11.0 Maximum Maturities:

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. The City will attempt to operate a portfolio with an average life of three years or less. This is to ensure liquidity and the ability to move with changing markets and interest rate movements.

No investments shall be made with maturities greater than five (5) years without specific Council approval not less than three (3) months prior to the investment. At no point will investments with maturities greater than five (5) years exceed 10% of the portfolio value.

12.0 Internal Control:

The Finance Department is responsible for establishing and maintaining an internal control structure designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Rio Vista. Controls deemed most important include: clear delegation of authority to subordinate staff members, separation of transaction authority from accounting and record keeping, supervisory control of employee actions, written confirmation of all transactions, minimizing the number of authorized investment officials, documentation of transactions and strategies, custodial safekeeping, avoidance of bearer-form securities, specific limitations regarding securities losses and remedial actions, proper review and approval of brokerage accounts and investment transactions, and control of collusion.

An external auditor will perform an annual independent audit. In performing the annual fiscal audit, the auditors consider the City's internal control structure to determine the scope of the audit procedures for the purpose of rendering an opinion on the financial statements. While their purpose is not to provide assurances on the internal control structure, they do advise on matters that come to their attention and describe them in a separate memorandum. This consideration of the City's internal control structure will not necessarily disclose all weaknesses in the internal control structure; however it does provide a measure of assurance regarding the adequacy of the controls.

13.0 Performance Standards:

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs.

13.1 Market Yield (Benchmark): The City's investment strategy is passive. Passive investment portfolio management generally indicates that the Treasurer will purchase an instrument and hold it through maturity, and then reinvest the monies. Although the City's investment strategy is passive, this will not restrict the Treasurer from evaluating when sale or switching of an investment instrument is prudent prior to maturity. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the comparative yields from the Local Agency Investment Fund (LAIF).

14.0 Reporting:

Quarterly, the Treasurer will issue a report for Council's review of the City's current investment portfolio, detailing securities, purchase and maturity dates, and face and market values.

15.0 Investment Planning Committee:

Beginning in 2013, an Investment Committee shall be formed consisting of the City Treasurer, the City Manager, the City Finance Director, one City Councilperson to be appointed by the Mayor with Council approval, and one non-City employee to be appointed by the Mayor with Council approval, said person to have professional funds' investment experience in the public and/or private sector. The City Treasurer shall chair the committee. The purpose of the committee shall be to forecast the City's potential surplus funds available for investment and to review and suggest appropriate areas of investment to the City Treasurer. The committee shall meet semi-annually on the first Monday of March and of September, at 9:00 AM, in Council Chambers. The City Treasurer can call for special committee meetings if deemed necessary. The City Treasurer shall prepare the minutes of the Investment Committee meeting and shall file the minutes with the City Clerk.

16.0 Investment Policy Adoption:

The City's Investment Policy shall be prepared for the up-coming fiscal year and be adopted by resolution of the City Council at its second regular meeting in March. The policy shall be reviewed on an annual basis by the City Council who shall approve any modifications made to the policy.

Adopted by Council: [date]