
2.6 INVESTMENT POLICY (Approved: April 28, 2004)

2.6.1 Scope

This policy provides guidelines for the prudent investment of El Dorado Local Agency Formation Commission (LAFCO) funds and for maximizing the efficiency of LAFCO's cash management system.

2.6.2 Objectives

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

1. Safety of Principal

Investments shall be undertaken in a manner that first seeks to ensure the preservation of principal. The Financial Officer shall evaluate, or cause to be evaluated, each potential investment, seeking both quality in issuer and in underlying security or collateral. The objectives will be to mitigate credit risk and interest rate risk.

2. Liquidity

Investments shall have maturity dates compatible with cash flow requirements and shall permit easy and rapid conversion into cash without substantial loss of value.

3. Return on Investment

Investments shall be undertaken to attain market rates of return, consistent with the higher priority objectives of safety of principal and liquidity.

2.6.3 Prudence

LAFCO shall manage its investments under the prudent person rule which states, in essence, that a trustee shall exercise the judgment and care, under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived (Government Code §53600.3).

Investment shall be made only in securities and with financial institutions in which LAFCO is legally empowered to invest funds.

Commissioners, officers, and employees involved in the investment process shall refrain from personal business activity that could conflict

with the prudent execution and management of LAFCO's investments, or that could impair their ability to make impartial decisions. Said individuals shall not serve on the board of directors of a financial institution in which LAFCO has invested funds.

2.6.4 Delegation of Authority

The Executive Officer is designated as the Financial Officer of LAFCO, and is responsible for investment management decisions and activities.

2.6.5 Authorized Investments

1. Passbook Savings and Money Market Checking Accounts. These accounts may be maintained in local branches of commercial banks and/or savings and loan associations. Amounts maintained in such accounts shall be fully insured by the FDIC or fully collateralized.
2. Certificates of Deposit. Cash may be invested in certificates of deposit only if they are fully insured by the FDIC or fully collateralized.
3. Local Agency Investment Fund of the State Treasury (LAIF).
4. El Dorado County Treasury. Funds may be deposited in the El Dorado County Treasury if the Financial Officer determines that the deposit would facilitate the use or purchase of county services until those services are no longer needed. Funds may also be deposited to facilitate compliance with Government Code §56381.

2.6.6 Prohibited Investments

Certain investment practices and instruments are inconsistent with the first objective of this policy, safety of principal, and are therefore prohibited:

LAFCO shall not engage in leveraged investing, including but not limited to margin accounts, hedging, or any form of borrowing for the purpose of investment.

2.6.7 Reporting

The Financial Officer shall submit to the Commission a quarterly investment report detailing all investments.

2.6.8 Policy Revision

This policy may be revised by the Commission as necessary.

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2.7 FINANCIAL POLICIES (Approved 6/23/04)

2.7.1 Accounts and Signatures

- (a) Bank accounts shall be authorized by motion of the Commission and established by the Executive Officer consistent with LAFCO's Investment Policy, Section 2.6 (adopted April 28, 2004). Such accounts shall be used to manage LAFCO's financial affairs.
- (b) One or more accounts may be retained with the County Treasury to facilitate the purchase of County services until those services are no longer needed and for the County Auditor's convenience in implementing the provisions of Government Code §56381.
- (c) The Executive Officer is designated as the Financial Officer of LAFCO and shall have principal signature authority for all accounts, subject to procedures and safeguards adopted by the Commission.
- (d) Signature authority for any accounts retained with the County Treasury shall continue as defined in County policies and regulations. The Executive Officer will continue signature authority equivalent to the County Chief Administrative Officer and County Department Heads. The Office Manager/Commission Clerk will continue with signature authority previously authorized by the Executive Officer and allowed under County regulations.
- (e) Three commissioners, including the Chairman, Vice-Chairman and one additional designated individual, shall have signature authority for bank accounts and financial transactions.
- (f) A budget update and financial statement will be reviewed by the Commission no less frequently than quarterly (Policy 2.6.7).

2.7.2 Expenditures

- (a) The Executive Officer will review all claims and invoices received by LAFCO and may authorize payment as appropriate within the framework and limitations of the budget adopted by the Commission.
- (b) The signature authority allowed by this section is as follows:
 - i. Disbursements for the payment of the usual health insurance premiums for LAFCO employees in excess of \$7,000 will require two signatures.

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- ii. Disbursements in excess of \$5,000 will require two signatures. At the discretion of the Executive Officer, a second signature for disbursements of less than \$5,000 may be required.
- (c) All claims for expenses, other than usual employee costs (salaries and benefits), are reviewed by the Commission (Policy 2.1.8).

Expenditure authorization for all expenses shall comply with Policy 2.9. The Executive Officer shall strive to authorize payment of routine claims in an expeditious manner in order to avoid late charges, ensure prompt payment and to qualify for early payment discounts.

- (d) An audit of LAFCO's financial statements shall be conducted annually.

2.7.3 Internal Financial Controls

The following are the internal controls and safeguards of LAFCO:

- (a) The Office Manager/Commission Clerk and Executive Officer will follow adopted procedures for invoices, claims, disbursements, receipt and deposits of revenues. The Office Manager/Commission Clerk shall initiate transactions such as Check Request and/or Credit Card Request and payment of invoices and claims.
- (b) The Executive Officer and/or the Commission shall authorize transactions. The Commission will review and approve all claims monthly as specified by Policy 2.1.8.
- (c) The Office Manager/Commission Clerk will prepare payments and checks as specified in the approved procedures.
- (d) The Executive Officer will review and sign all checks. Two signatures are required for any check in excess of \$5,000.
- (e) The Office Manager/Commission Clerk shall maintain and reconcile records of all financial transactions. The Executive Officer will review reconciliations monthly. Financial updates and budget reports will be prepared and presented to the Commission no less frequently than quarterly.
- (f) An outside financial audit will be conducted following the close of each fiscal year and presented to the Commission when complete.

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2.7.4 **Fraud/Ethical Behavior**

It is the policy of El Dorado LAFCO to follow ethical, responsible, and reasonable procedures related to purchasing, claims, auditing, money management, and other financial matters.

Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of personal gain or for the purpose of inducing another to act upon it to his or her injury. Each employee or member of LAFCO should be familiar with the types of improprieties that might occur in his or her area of responsibility and be alert for any indication of irregularity. Any fraud that is suspected or detected shall be reported immediately to the Executive Officer or alternatively to the Chair of the Commission.

Actions Constituting Fraud

The terms fraud, defalcation, misappropriation, and other fiscal irregularities refer to, but are not limited to:

1. Any dishonest or fraudulent act
2. Forgery or alteration of any document or account belonging to LAFCO
3. Forgery or alteration of a check, bank draft, or any other financial document
4. Misappropriation of funds, securities, supplies, equipment, or other assets of LAFCO
5. Impropriety in the handling or reporting of money or financial transactions
6. Disclosing confidential and proprietary information to outside parties
7. Accepting or receiving anything of material value from contractors, vendors, or persons providing goods or services to LAFCO
8. Destruction, removal or inappropriate use of records, furniture, fixtures, and equipment
9. Any similar or related irregularity
10. Personal use of LAFCO Credit Card

The Executive Officer has the primary responsibility for investigating suspected fraudulent acts and may use whatever internal and/or external resources are necessary to conduct an investigation. Results of any

investigation and subsequent actions will be reviewed by counsel and referred to the Commission if appropriate.

Investigation results are confidential and will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This will avoid damaging the reputations of persons who may be suspected, but subsequently found innocent of wrongful conduct.