

Memorandum City of Lawrence City Auditor

TO: Members of the City Commission

FROM: Michael Eglinski, City Auditor

CC: David L. Corliss, City Manager
Cynthia Wagner, Assistant City Manager
Diane Stoddard, Assistant City Manager
Jonathan Douglass, Assistant to the City Manager

Date: March 21, 2013

RE: Audit Recommendation Follow-Up March 2013

Following-up on performance audit recommendations provides the City Commission with information on management's efforts to implement recommendations. This report covers recommendations from six performance audits: Street Lights, Solid Waste, Pavement Data, Financial Indicators (2011), Rental Housing and Cash Handling. City Code requires follow-up reporting.

Figure 1 Implementation summary

Status	Number of Recommendations
Implemented	6
Not-Implemented	0
In Progress	11

Figures 2 and 3 summarize the status of all of the recommendations. See Appendix A for the City Manager's written update on recommendation status and attachments.

Action item

The City Commission can direct the City Auditor to "close" the six audit recommendations categorized as implemented (Figure2, a through f). Closed recommendations won't be included in future follow-up.

Figure 2 Implemented recommendation status

Implemented Recommendations

Street Lights (May 2009)

- a. The City Manager should evaluate the feasibility of acquiring the street lights from the utility company.

Solid Waste (June 2010)

- b. Charge enterprise operations for solid waste services.

Cash Handling (August 2012)

- c. Create and update cash handling policies and procedures. The Finance Department's draft guidelines provide a framework for policies and procedures. New and updated policies and procedures should address the key elements of cash handling summarize in Figure 2 [from the August 2012 report].
- d. Develop policies and procedures to ensure locations that accept payments for copying related to records requests and fingerprinting pay those fees to the City Treasurer on a daily basis as required by city code.
- e. Create simple cash handling guidelines for employees who infrequently handle cash, such as staff who may receive occasional checks in the mail.
- f. Resolve the conflict between current cash handling practices and the city's investment policy.

Figure 3 In-progress recommendation status

In-Progress Recommendations

Street Lights (May 2009)

- a. The City Manager should request Westar Energy to adopt estimated kWh rates for street lights that are consistent with those of other utilities.

Solid Waste (June 2010)

- b. Write policies and procedures for estimating municipal solid waste and recycling. Policies and procedures should ensure backyard composting is not counted in the recycling rate and address how the city will account for debris from major storms. Policies and procedures could include forms.
- c. Include additional performance measures and benchmarking information in annual rate memos

Pavement Data Use (September 2011)

- d. Develop a maintenance policy for city streets paved in brick and with pavement over brick.

Financial Indicators (September 2011)

- e. Prepare and present to the City Commission a 5-year Capital Improvement Plan for the city as a whole.
- f. Prepare and present to the City Commission Multi-Year Financial Projections of major revenues and expenditures.

Rental Housing (March 2012)

- g. Write policies and procedures for the rental inspection program. The written documentation should address program practices and cover the elements of good practice identified in this performance audit.
- h. Establish performance measures and reporting for the program.
- i. Propose an ordinance to raise the fee level to better recover program costs.
- j. Seek direction from the City Commission about whether the city should continue to exempt rental properties in the PUD areas that were formerly RS zoned.

Cash Handling (August 2012)

- k. Develop training for employees and managers responsible for handling cash.

Recently implemented recommendations

Management implemented six recommendations since the November 2012 recommendation follow-up. Implementing those recommendations should improve internal controls over cash and ensure consistency in provision of free solid waste services.

City staff created and updated cash handling policies and procedures and reconciled the differences between the city's investment policy and cash handling practices. Effective controls over cash handling require developing written policies and procedures, consistently following those procedures, and ensuring that managers and staff understand the purpose of the controls. Now that cash handling policies and procedures have been updated, it may be appropriate to do additional cash handling auditing in the future. I will consider additional cash audit work in future audit plans.

Public Works developed an administrative policy to guide waivers of solid waste fees and to waive fees that would be required of other city departments. Written policies help ensure that if the city waives service charges those decisions are made on a consistent and defensible basis.

Public Works' Policy on Waiver of Solid Waste Charges

Public Works' policy is to generally discourage fee waivers because fees waived are otherwise supported by those customers who pay rates. Fee waivers require the approval of the director of public works.

Public Works' policy allows fee waivers for events that have wide-based community impact. To receive a waiver, organizations must request waivers at least 14 days in advance and those waivers are reviewed against a set of criteria. Under the policy, the city will not waive fees for fund raising events, due to non-profit status or when other city services are reimbursed.

Public Works' policy is to provide services to other city departments (including enterprise operations) at no charge except for any departments that provide their own roll-off or multi-lift containers.

City staff evaluated the feasibility of acquiring street lights from the electric utility and concluded with a recommendation "at this time that the purchase of leased streetlights from Westar Energy not be pursued."¹ Staff reached that conclusion based on costs associated with adding new lights, metering fees, administrative costs and financing costs. I categorized this recommendation as implemented because management has recommended against purchasing the street lights. I will consider additional analysis of street light options in future audit planning.

¹ *Cost Benefit Analysis for Purchasing Westar Energy Leased Streetlights*, memo from Brian Watson, Assistant Finance Director, to Dave Corliss, City Manager, September 4, 2012. The memo was provided to the City Commission at the October 23, 2012, City Commission Meeting.

Scope, method and objectives

Following-up on the status of audit recommendations provides the City Commission with information about management's efforts to implement audit recommendations. The City Code requires the City Auditor to follow-up on audit recommendations no later than 6-months after issuing an audit, to determine that corrective action was taken and is achieving the desired results. City Code requires that the auditor inform the City Manager and the City Commission of the results of the follow-up.

The City Auditor provided the City Manager with a list of audit recommendations and status on February 1, 2013, and asked management to provide updates. The request covered recommendations for reports released more than 120 days ago and for open recommendations from older reports.

The auditor compiled the information but did not verify the information provided by management. The auditor did not verify that policy and procedure recommendations are being followed. For each recommendation, the auditor made a judgment about the status of the recommendation.

Figure 4 Implementation Status Definitions

Status	Indicator
Implemented	Management describes steps taken to implement the recommendation.
Not implemented	Management asserts that the recommendation will not be implemented or has not taken steps to implement the recommendations.
In progress	Management describes progress toward implementing the recommendation.
Undetermined/pending	Status cannot be determined, for example, because the recommendation requires future actions or because management describes steps that will be taken in the future.

The City Auditor, with the City Commissions' direction, will "close" a recommendation and exclude it from future follow-up reports. Open recommendations will be included in future follow-up reports unless "closed" by the City Commission.

The follow-up information on the status of implementing recommendations was not conducted as a performance audit under *Government Auditing Standards*.

The City Auditor shared a draft of this report with the City Manager.

Appendix A: City Manager's update on audit recommendation status

Memorandum

City of Lawrence

City Manager's Office

TO: David L. Corliss, City Manager

FROM: Cynthia Wagner, Assistant City Manager

CC: Diane Stoddard, Assistant City Manager

DATE: February 7, 2013

RE: Response to Audit Recommendation Follow-Up Report February 2013

The following is provided in response to questions posed by City Auditor Michael Eglinski regarding the status of some audit recommendation items.

Street Lights

- **The City Manager should evaluate the feasibility of acquiring the street lights from the utility company.**

While review of the feasibility of acquiring the system is ongoing, it appears that the additional annual cost to purchase and own the system would be approximately \$264,790. This increase is due to the upfront expense of yearly addition of new poles and bulbs, metering fees, administrative cost and bond and interest costs related to financing the purchase. A staff report was included in the City Manager's Report for the City Commission for their October 23, 2012 meeting. Due to other organizational priorities, no further work on this review has been completed since the September update.

- **The City Manager should request Westar Energy to adopt estimated kWh rates for street lights that are consistent with those of other utilities.**

As part of review of the feasibility of purchasing the system, staff recommended an interim step of working with Westar to determine the cost and potential timing to meter unique streetlight types and charge the same rate for similar lights throughout the system. Westar has installed three meters that staff will monitor and compare with the KCC tolls.

Solid Waste

- **Write policies and procedures for estimating municipal solid waste and recycling. Policies and procedures should ensure backyard composting**

is not counted in the recycling rate and address how the city will account for debris from major storms. Policies and procedures could include forms published by the US EPA in Measuring Recycling: A Guide for State and Local Governments.

The Solid Waste Division drafted a preliminary policy and a new recycling rate calculation using EPA guidelines was provided to the Solid Waste Task Force in January 2012. The final draft of the policy will be completed and submitted to the City Manager and City Auditor by Monday, March 4, 2013.

- **Charge enterprise operations for solid waste services.**
The Free Service Policy adopted by Public Works Department in March 2012 is **attached** and addresses charging other city departments for solid waste services.

Recommend closure of this item.

- **Include additional performance measures and benchmarking information in annual rate memos.**
Progress on performance measures and benchmarking has been identified as a priority for the solid waste division in 2013 and has been included in appraisal goals for supervisory staff in the division.

Pavement Data Use

- **Develop a maintenance policy for city streets paved in brick and with pavement over brick.**
A policy has been developed and is scheduled for review by the Historic Review Commission at the March 21, 2013 meeting. A process for proceeding will be developed following discussion at that meeting. It is anticipated that an item would be included on a City Commission agenda for review early this fall.

Financial Indicators 2011

- **Prepare and present to the City Commission a 5-year Capital Improvement Plan for the city as a whole.**
The City Commission adopted a multi-year Capital Improvement Plan on August 7, in conjunction with approval of the 2013 budget. The plan can be found at the following link: http://www.ci.lawrence.ks.us/assets/agendas/cc/2012/08-07-12/dlc_capital_budget_2013_2017.pdf. The Planning Commission approved the CIP as being in conformance with the City's Comprehensive Plan on December 10, 2012.
- **Prepare and present to the City Commission Multi-Year Financial Projections of major revenues and expenditures.**
Staff has developed a multi-year financial projection of revenues and expenditures. The City Manager continues to review the projection and once

finalized will presented to the City Commission as part of the 2014 budget development process.

Rental Housing

- **Write policies and procedures for the rental inspection program. The written documentation should address program practices and cover the elements of good practice identified in this performance audit.**

As reported in September 2012, a working draft of policies and procedures is under development. Currently, staff awaits further City Commission direction regarding expansion of the rental program before completion of these policies as any expansion of the program would change the drafted policies.

- **Establish performance measures and reporting for the program.**
As with the policies noted above, development of performance measures is in progress, but completion awaits City Commission action on rental program expansion.

- **Propose an ordinance to raise the fee level to better recover program costs.**

New fees were proposed with the rental licensing expansion reviewed by the City Commission November 27, 2012. Implementation of the increases awaits City Commission action on this item.

- **Seek direction from the City Commission about whether the city should continue to exempt rental properties in the PUD areas that were formerly RS zoned.**

Action on this item awaits Commission direction regarding expansion of the rental program to all properties.

Cash Handling

- **Create and update cash handling policies and procedures. The Finance Department's draft guidelines provide a framework for policies and procedures. New and updated policies and procedures should address the key elements of cash handling summarized in Figure 2.**

Cash handling policies and procedures for all departments were completed and submitted to the Finance Department by December 12, 2012. Finance staff met with supervisors in all departments to review and create or update policies, all of which comply with the guidelines provided by the Finance Department.

Recommend closure of this item.

- **Develop policies and procedures to ensure locations that accept payments for copying related to records requests and fingerprinting pay those fees to the City Treasurer on a daily basis as required by city code.**

The Police Department Cash Handling Policy addresses this requirement. The revised policy requires the fees be submitted to the Finance Department Daily.

Recommend closure of this item.

- **Create simple cash handling guidelines for employees who infrequently handle cash, such as staff who may receive occasional checks in the mail.**

As part of the development or revision of cash handling policies and procedures, guidelines to address infrequent handling of cash were included. As noted above, all policies were revised or created and submitted to the Finance Department by December 12, 2012.

Recommend closure of this item.

- **Resolve the conflict between current cash handling practices and the city's investment policy.**

The Assistant Finance Director has reviewed both policies and updated for uniformity and consistency to address the audit issues. **Attached** are copies of both revised policies.

Recommend closure of this item.

- **Develop training for employees and managers responsible for handling cash.**

Training is currently under development and will be provided by the Assistant Finance Director in early spring.

City of Lawrence
Administrative Policy

SUBJECT Waiver of solid waste service charges		APPLIES TO Special events and City departments	
EFFECTIVE DATE November 1, 2011	REVISED DATE	NEXT REVIEW DATE November 1, 2013	
APPROVED BY <i>Charles Soules, Director of Public Works</i>		TOTAL PAGES	POLICY NUMBER

1.0 PURPOSE

This policy provides guidelines for waiving Solid Waste service fees. The Solid Waste Division operates as a utility or enterprise fund. Fees waived by the division are functionally supported by the entire rate base of the service. Therefore, waivers of service fees are generally discouraged and require approval of the Director of Public Works.

2.0 SPECIAL EVENTS (community and non-profit organizations)

Solid Waste services are a necessary component of event planning and organizational operations. Organizations will generally arrange for waste management services and pay fees at the standard monthly rates. Certain events may have a wide-based community impact and may be considered for waiver of solid waste collection fees.

2.1 Procedures to request fee waiver

- 2.1.1 Request for waiver of services charges must be submitted to the Solid Waste Division.
- 2.1.2 Request must be made a minimum of 14 days before service is required.
- 2.1.3 Request should be sufficiently complete such that the Director of Public Works can evaluate the request against criteria below.

2.2 Criteria for evaluating fee waiver requests

- 2.2.1 Service or event should demonstrate broad community involvement and/or benefit.
- 2.2.2 Service must be limited in scope (such as one day / weekend per year).
- 2.2.3 Placement of containers and access for equipment must be feasible.
- 2.2.4 Collection services must be performed during normal working hours.
- 2.2.5 Services charges will not be waived for fund-raising events.
- 2.2.6 Service charges will not be waived due to non-profit status.
- 2.2.7 Large community events intended to increase tourism may be considered for waiver of fees but will also be submitted for reimbursement of costs IF the event is deemed eligible to reimburse municipal costs for other city services.



City of Lawrence, Kansas INVESTMENT AND CASH MANAGEMENT POLICY

1.0 POLICY

It is the policy of the City of Lawrence to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City of Lawrence and conforming to all state, county, and local statutes governing the investment of public funds. The policy will be reviewed and approved at least annually by the City Commission or sooner when there are either changes to this policy or in Kansas State Statutes that relate to the City's investments.

2.0 SCOPE

The Director of Finance will establish and maintain written procedures for the operation of the cash management and investment program consistent with this policy. 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 by the Director of Finance.

3.0 DELEGATION OF AUTHORITY

Responsibility for the management of the City's investment portfolio is delegated to the Director of Finance by the City Manager. This policy applies to the cash management and investment activities of the City of Lawrence, Kansas, except for the debt service funds, reserve funds and other financial assets held by various fiscal agents and trustees as provided by the appropriate bond ordinance. The financial assets of all other funds shall be administered in accordance with the provisions of this policy.

4.0 OBJECTIVES

The City of Lawrence recognizes that effective cash management is an integral component of good financial management. Therefore, it is the policy of the City that funds deemed idle, based on projected cash flow, be invested in a manner that seeks to maximize their productivity until such time as they are needed for the operations of the City. Investments shall be at the highest rates obtainable at the time of investment, within the limitations of the law and our prudent investment policy. The City's investment portfolio shall be designed and managed in accordance with

the responsibility of ensuring the public's trust and consistent with state, county and local laws.

4.1 Safety

The primary tenet of the City of Lawrence investment strategy is ensuring the safety of principal. Cash investments of the City of Lawrence shall be undertaken in a manner that seeks to maximize investment income while ensuring the preservation of capital in the portfolio.

4.2 Return on Investment

The investment portfolio shall be designed to attain, at a minimum, a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints, Kansas State Statutes and the cash flow needs of the City's operations. Investments will be made at the highest rates obtainable at the time of investment, within the limitations of the law and the City's prudent investment policy.

4.3 Liquidity

The City of Lawrence's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements and expenses. In a situation where an unforeseen event arises that creates the need for securities in the portfolio to be sold, the following procedure will be followed. The amount and timing of the cash requirements will first be determined. A compilation of anticipated revenue and maturing investments will be made. The net amount of any cash shortage can then be calculated. The City's portfolio will be reviewed and those investments that can be sold prior to maturity will be evaluated to determine the order that the investments should be sold. Consideration will be given to the size of the investment, interest rate on the investment, and maturity date. In most cases, the lower yielding investments will be sold first. In some cases, it may be necessary to negotiate the early liquidation of certificates of deposit. If those deposits are with more than one financial institution, the institution that requires the lowest penalty will be sold first. All such sales must be approved by the Director of Finance.

5.0 INTERNAL CONTROL

5.1 Written Process

The Director of Finance shall establish a system of written internal controls, which shall be reviewed annually by the independent auditor. These controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, or imprudent actions. No security will be purchased without the approval of the Director of Finance or their designee

5.2 Delivery vs. Payment

All securities purchased under this policy will be on a delivery versus payment basis.

5.2 Investment Staff

Investments will be made either by the Director of Finance or employees or third parties with experience and knowledge of investments by Kansas local governments. The quality and capability of the investment staff will be demonstrated by having prior experience in investing funds in accordance with K.S.A.12-1677b, prior employment with a broker-dealer that involved investing funds in United States Government Agencies or Sponsored Corporations, or participating in training sponsored by an agency such as the Government Finance Officers Association that is familiar with governmental investing.

6.0 PRUDENCE

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the effectiveness of the government of the City of Lawrence.

The standard of prudence to be used by investment officials shall be the "prudent investor" rule, which states, "Investments shall be made with judgment and care, under 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."

The rule shall be applied in the context of managing the entire portfolio.

Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for a specific security's credit risk or market price changes, providing deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

7.0 LEGAL AUTHORITY AND LIMITATIONS OF INVESTMENT INSTRUMENTS

All investments purchased under this policy shall be governed by K.S.A. 12-1675, et. seq. and all revisions thereto, as may be made by the Kansas Legislature. Investments are limited to a maximum of two years unless the City's investment policy is approved by the State of Kansas Pooled Money Investment Board, in which case investments could be for up to four years. Below is a summary of acceptable investments under the current law:

7.1 Certificates of Deposit (CDs)

Instruments issued by banks or savings and loans that state specified sums have been deposited for specified periods of time and at specified rates of interest. Certificates of deposit are required to be backed by acceptable collateral securities as dictated by Kansas Statutes. The maximum maturity is two years unless the City's investment policy is approved by the State of Kansas Pooled Money Investment Board (PMIB), in which case the maturity may be up to four years.

7.2 Repurchase Agreements (REPOs)

Repurchase agreements are contractual agreements between the City and commercial banks, trust companies, state or federally chartered savings and loan associations or federally chartered savings banks. The repurchase agreement issuer receives cash and, in turn, sells securities to the City. The City agrees to resell the securities to the issuer on a specific future date at the original purchase price plus a negotiated interest payment. Repurchase agreements are required to be backed by acceptable collateral securities as dictated by Kansas Statutes. If the City's investment policy is approved by the PMIB, a repurchase agreement may be executed with a primary dealer or a broker-dealer registered in accordance with K.S.A.17-12a401.

7.3 United States Treasury Obligations

These obligations must mature within two years from date of purchase and are guaranteed as to principal by the United States Government. If the City's investment policy is approved by the PMIB, the maximum maturity may be four years.

7.4 United States Government Agency Securities

United States Government Agency securities include indirect obligations of the federal government, issued by the Government National Mortgage Association and the Small Business Administration. These securities are backed by the full faith and credit of the United States Government. The maximum maturity is four years. The City's investment policy must be approved by the PMIB prior to the purchase of United States Government Securities. Investment in these securities is limited to those that have no more interest rate risk than United States Government obligations of similar maturities.

7.5 Government Sponsored Corporations Instruments

Obligations of enterprises sponsored by the United States Government, such as Federal Farm Credit System, Federal Home Loan Mortgage Association, Federal National Mortgage Association and the Student Loan Marketing Association. To participate, the City's investment policy must be approved by the PMIB. Investment in these securities is limited to those that have no more interest rate risk than United States Government obligations of similar maturities and are not mortgage backed.

7.6 Kansas Municipal Investment Pool

A pool of investments consisting of CD's, United States Treasuries, United States Agencies, Commercial Paper, and Repurchase agreements. The pool is administered by the Pooled Money Investment Board.

7.7 Temporary Notes of the City

7.8 Commercial Bank Savings Accounts

Other types of investments may be added to this list as changes to the statutes governing such investments are revised. The above instruments may be purchased from eligible banks, savings and loans, primary dealers and the State Treasurer's Office.

8.0 BOND AND TEMPORARY NOTE PROCEEDS

The City of Lawrence may invest any bond or temporary note proceeds which are not immediately needed, in accordance with Kansas Statute 10-131 and the specific bond or note resolution. Funds will be invested as required by federal regulations regarding arbitrage on tax-exempt bond proceeds.

The interest received on the investment of bond and note proceeds shall be used for the purpose of paying interest on the bonds or notes issued, or for paying the cost of the project for which the bonds or notes were issued.

9.0 CONTRACTS WITH FINANCIAL INSTITUTIONS

The City of Lawrence may invest funds with depositories having offices located in the City of Lawrence as provided by K.S.A. 9-1401. All depositories of the City of Lawrence shall execute a contract with the City of Lawrence which shall designate the requirements of serving as a depository for the City, including collateralization of City funds invested at such depository and the related safekeeping requirements of the pledged securities. The City shall have a separate contract with the "operating bank" which will execute a contract once every three years in accordance with the practice of bidding banking services every three years. Any financial institution in which the City has funds shall provide such financial data to the Director of Finance as may be required by the City to evaluate the financial condition of the institution. Such data will be in the form of audited financial statements, Federal Deposit Insurance Corporation regulatory reports, and shall be provided at least annually by the financial institutions to the Director of Finance. Any refusal to provide such information to the City may be cause for termination of the depository contract with such institution.

9.1 Safekeeping of Securities

All securities will be perfected in the name of the City and held by the City or a third party custodian. A third party institution will hold securities pledged as collateral by the City's financial institutions. The City's preferred custodian is the Federal Reserve.

Safekeeping records of pledged securities may be mailed, faxed or emailed to the City in order to accommodate timely and legal investment transactions.

9.2 Collateralization

The City requires full collateralization of all City investments other than direct and indirect obligations of the United States Government, as required by Kansas State Statutes. The City does not include FDIC coverage when calculating full collateralization. The City will accept as collateral for certificates of deposit those securities listed in K.S.A. 9-1402. Collateral underlying repurchase agreements is limited to obligations of the United States Government and its agencies.

The Director of Finance will monitor the adequacy of collateralization monthly. The City requires monthly reports with market values of pledged securities from all financial institutions with which the City has certificates of deposit or repurchase agreements.

10.0 INVESTMENT RETURN OBJECTIVES

Consistent with State law, the City shall seek to optimize return on investments, while minimizing risk to the principal, within the constraints of this policy.

11.0 INVESTMENT PROCEDURES

As required by K.S.A. 12-1675, the City of Lawrence gives preference to local financial institutions when investing idle funds. Before investing any funds, the City shall conduct a competitive bid process. Investment bids will be taken by the Director of Finance, or the person designated by the Director of Finance, at times when investment of idle funds would be in the best interest of the City. Investment bids may be solicited from broker-dealers who are eligible under K.S.A. 17-12a401.

Such bid requests may be made in writing and any required collateral forwarded to the City prior to the investment being purchased. All of the financial institutions within the City limits will be notified annually of the City's investment policy, and requirements for investing if they wish to participate in the bid process. If a qualified financial institution meets or exceeds the state calculated benchmark investment rate for a given maturity, the City will not invest in the State Municipal Investment Pool or any United States Treasury or Agency obligations.

12.0 INVESTMENT DIVERSIFICATION

The City will limit its investment in repurchase agreements to no more than 50% of its portfolio. All other eligible investments may make up 100% of the portfolio. Investment maturities shall be scheduled to coincide with projected cash flow needs. Cash flow needs will be projected based upon the weekly amount of claims paid, the biweekly payroll and anticipated revenue.

12.1 Investment Limitations per Institution

In order to protect the City from the failure of any one financial institution, the City shall not invest more than 30% of idle funds with any one financial institution. The 30% limitation does not apply to United States Treasury or Agency obligations held in safekeeping by an institution on behalf of the City. These obligations are backed by the United States Government and do not require collateral as described in Section VI (B) of this policy. The 30% limitation shall be determined prior to the solicitation of bids. If an institution exceeds the 30% limitation after the bids have been awarded, no further bids will be accepted from the financial institution until sufficient maturities have occurred to reduce their share of the portfolio to below 30%.

12.2 Investment Type

Investments in United States Treasury obligations may make up 100% of the portfolio. However, the City will limit its investment in repurchase agreements covering all eligible securities to no more than 30% of its portfolio. Investments in certificates of deposit may make up 100% of the portfolio. Investment in callable securities shall not exceed 20% of the portfolio. The City may investment no more than 50% of its portfolio with any one United States Government Sponsored Corporation.

12.3 Maturity

If the City maintains its expanded investment powers, the maximum maturity of an investment is four years; otherwise the maximum maturity is two years. Investment maturities shall be distributed to coincide with projected cash flow needs to meet the objectives of Section 4.3. Cash flow needs will be projected based upon the weekly amount of claims paid, the biweekly payroll and anticipated revenue.

13.0 DAILY CASH MANAGEMENT PRACTICES AND POLICIES

Storing cash receipts anywhere overnight should be avoided; where feasible deposits must be made daily. All cash collected by or on behalf of the City shall be directly remitted to the Finance Department and/or a bank depository account listed in the City's name within 24 hours of receipt. Payments received via credit/debit card must always be closed out and remitted to the Finance Department at City Hall on the date of receipt. Cash received in any amount should be appropriately deposited no later than the last business day of the week of receipt. Investment of any idle funds will be made in accordance with this policy. Any violation of this section of this policy by any employee of the City may result in disciplinary action.

14.0 REPORTING REQUIREMENTS

The investment officer shall generate quarterly reports for management purposes. The reports will be made available to the Lawrence City Commission as part of the quarterly financial report. If the City maintains its expanded investment powers, reports will be generated annually to show the average portfolio size, anticipated maturity distribution, and expected yield to maturity on a monthly basis. In addition, the auditors will be provided a report on the City's investments that shows the investment type, rating, and maturity. The report will also discuss interest rate risk, credit risk, concentration of credit risk, and custodian credit risk.

15.0 ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Lawrence.

16.0 SEPARATE PROVISIONS OF POLICY AND CONFLICTS WITH KANSAS LAW

The above policies shall remain in full force and effect until revoked by the City Commission. If, after adoption of this policy, there is any conflict of this policy with Kansas laws and/or statutes, current law shall dictate.

17.0 GLOSSARY

The following is a glossary of key investing terms that appear in The City of Lawrence's Investment Policy.

Cash Flow--Cash receipts minus disbursements from a given asset, or group of assets, for a given period. An analysis of the movement of cash through a venture as contrasted with the earnings of the venture.

Certificate of Deposit--A time deposit with a specific maturity evidenced by a certificate.

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

Cost--An amount paid or required in payment for a purchase of an investment.

Fannie Mae--Fannie Mae (formerly the Federal National Mortgage Association) is a private stockholder-owned corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential

mortgage funds in the United States. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed rate mortgages. Fannie Mae's securities are also highly liquid and are widely accepted. Fannie Mae assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Home Loan Bank (FHLB)--Government-sponsored wholesale banks which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB is to liquefy the housing-related assets of its members who must purchase stock in their district Bank.

Federal Home Loan Mortgage Corporation (FHLMC)--A federal agency which purchases first mortgages from members of the Federal Reserve System and the Federal Home Loan Bank System, referred to as "Freddie Mac."

Interest Rate--The interest rate is the annual rate of interest received by an investor from the issuer of fixed income securities. It is also the percentage of an amount of money which is paid for its use for a specified time.

Internal Controls--An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Investment--Commitment of money to gain profit or interest as by purchasing securities.

Investment Agreements--An agreement with a financial institution to borrow public funds subject to certain terms and conditions regarding collateralization, liquidity and interest rates.

Kansas Municipal Investment Pool (MIP)--The State of Kansas offers a Local Government Investment Pool (LGIP) entitled "State of Kansas Municipal Investment Pool," which is governed by the State of Kansas Pooled Money Investment Board.

Kansas Statutes--A written law enacted by the Kansas State Legislature.

Liquidity--Refers to the ability of an instrument to be converted into cash rapidly without substantial loss of value.

Market Value--The price at which a security is trading and could be purchased or sold on a given day.

Portfolio--Collection of securities held by an investor.

Principal--The face amount or par value of a debt security. (2) One who acts as a dealer buying and selling for his own account.

Repurchase Agreement (Repo)--An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price at a specified later date.

Safekeeping--The holding of securities by a financial institution on behalf of the securities owners.

Safety--Freedom from risk.

Securities--Documents that can be traded for value; an instrument of ownership or debt used to finance government and corporate entities.

Time Deposits--Another term for a savings account or certificate of deposit in a commercial bank.

United States Government Securities (Treasuries)--Bonds, notes, treasury bills or other securities constituting direct obligations of, or obligations the principal of and interest on which are fully and unconditionally guaranteed as to the full and timely payment by the United States of America.

**City of Lawrence
Finance Department
Cash Handling Guidelines**

I. PURPOSE

These guidelines establish uniform procedures to be followed in the collection, custody, reporting and deposit of cash receipts for all departments within the City of Lawrence. "Cash," as referenced herein, includes coin, currency, checks, e-checks, cashier's checks, travelers checks, money orders, debit/credit card receipts, direct bank deposit remittance receipts, electronic funds transfers (ACH), and wire transfer receipts.

II. PROCEDURES

Deposit Schedule: Storing cash receipts anywhere overnight should be avoided; where feasible deposits must be made daily. All cash collected by or on behalf of the City shall be directly remitted to the Finance Department and/or a bank depository account listed in the City's name within 24 hours of receipt. Payments received via credit/debit card must always be closed out and remitted to the Finance Department at City Hall on the date of receipt. Cash received in any amount should be appropriately deposited no later than the last business day of the week of receipt.

Security: Cash received at each location shall be adequately safeguarded at all times, and properly receipted and/or documented. Until deposited, all cash collections will be kept in locked drawers, cash boxes, or cash registers. If a safe is available, all cash kept overnight will be moved into the safe and locked. All customer checks, cashier's checks, traveler checks, and money orders will be restrictively endorsed immediately upon receipt. Restrictive endorsement will be made with stamped imprint indicating "For Deposit Only, City of Lawrence".

Receipts: Receipts for cash received in all departments shall be provided. The use of manual cash receipts shall be limited. Acquisition and distribution of pre-numbered receipt books shall be maintained and accounted for if a department does not have a cash receipt printer.

Disbursements: Under no circumstances should disbursements be made from cash receipts. Cash receipts should be accounted for in detail and reconciled to the penny against the corresponding source journal(s).

Check Cashing: No checks are to be cashed from the cash receipt coin/currency originally collected.

Refunds: Refunds must be processed through the City's Accounts Payable system with normal disbursement oversight and control. Refunds will be processed with a check disbursement, unless the payment was originally made with a credit card. Refunds with cash are not permissible.

Cash received Through the Mail: After the mail must be opened all checks must be endorsed immediately with a restrictive endorsement stamp. All cash must be listed on a "Daily Mail Collection Report".

No-Notice Cash Audit: All cash receipting areas are subject to no-notice cash audits by the Finance Department or by any authorized representative of the City Manager. Department personnel are required to provide access to all cash on hand, supporting documentation, financial systems, and cash receipts upon request. Written results of any audits conducted will be prepared for review with the Department Head, the Finance Director, and the City Manager.

Liability: Employees handling cash and processing cash receipts shall be covered under the City's general liability policy for Employee Fidelity/Dishonesty. Coverage shall provide for loss of City money or property directly caused by an employee's fraudulent or dishonest act. Suspected losses shall be investigated and recovery through civil or criminal legal action will be pursued.

III. PROCEDURES

A. All Departmental Cash Collection Points

1. Cash collection points must be approved by the City Manager's Office.
2. Upon receipt of any cash or cash-equivalent, the payment must be entered into a cash receipt system and a receipt must be generated showing the date and amount of the transaction. A copy of the receipt shall be provided to the customer in all instances.
3. Upon receipt of a payment made by credit card, the city representative must inform the customer of any applicable service charge that will be added to the payment. The payment must be entered into the cash receipt system. A signature receipt shall be signed by the customer. The Customer copy will be provided to the payee.
4. Wherever practical each employee who process cash receipts will have his/her own starting cash fund which will not be mingled with any other clerk/employee's transactions. Employees handling cash and processing cash receipts should be bonded. Employees will be accountable for cash under their control.
5. Each employee, who remits cash through his/her department, will have a supervisor review and sign that the deposited funds have been verified as part of the deposit process. Departmental discretion is allowed in conjunction with the Department Head and the City's Finance Director to assure appropriate separation of duties.

Preparation of deposit for remittance to Finance:

- a. The following Cash Receipt Report must be submitted to the Finance Department along with collected cash:
 - ✓ Daily Receipts Sub-Total
 - ✓ Receipt by General Ledger Account Number
 - b. Finance shall return a date/time stamp endorsed copy of the Daily Receipts Sub-Totals Report to the department that submitted the deposit.
 - c. Pertinent supporting receipts and journals should be maintained by the originating department and are subject to no-notice audit/review.
 - d. All funds collected must be balanced daily, by mode of payment, by comparing the total of the cash, checks and credit cards to the Cash Receipt Report.
 - e. The deposit preparer must process a calculator tape of checks only and attach to the checks bundled together. The calculator tape must be date stamped and have the initials of the person preparing the deposit.
 - f. Credit Card payments – The original signature page and the agency copy of all credit card receipts processed shall be attached with the deposit remittance. The supporting documents must be reconciled to the deposit.
 - g. The staff member preparing the deposit should sign and date it once the deposit remittance is completed and ready for submission to Finance.
- 6.** All cashier overages and shortages will be recorded. Over/short amounts must be separately recorded, and investigated and resolved to the extent possible as set out in the over/short portion of this policy. Any single shortage of \$50 or more must be reported to the Department Head immediately. If the shortage is the result of a suspected or documented theft, the shortage must be reported immediately to the City Manager and the Police Chief for investigation.
- 7.** The cashier shall retain all receipts and provide an explanation for each voided transaction. The explanation should then be reviewed by the Supervisor.

IV. EXCEPTIONS

The Finance Department must approve any exception to these procedures. For example, in cases where there is not enough staff available to maintain complete separation of duties, an alternate process to safeguard City funds must be established and approved by the Finance Director. Requests for exceptions to these procedures must be submitted to the Finance Department in writing.

V. RECORD RETENTION

All cash receipts and related documents must be maintained in accordance with Record Retention schedules. Accounting reports, deposit slips, credit card receipts, copies of manual cash receipts, etc. should be kept for five years. The Finance Department is responsible for retention of all cash related documents submitted for deposit by departments. Departments are responsible for the appropriate retention of any documents not submitted with the daily deposits.

VI. RETURNED CHECKS

- A. Payments made by check to the City of Lawrence that are not honored by the bank will incur a returned check fee. The payment will be reversed from the appropriate account when a check is returned by the bank. Any account not paid in full by the due date is subject to interest, penalties, and additional fees may be added if not paid.
- B. Returned check reimbursement payments must be in the form of cash, cashier's check, certified check or money order.
- C. The City of Lawrence will not accept checks as payment if two checks have been returned for insufficient funds.

VII. CREDIT CARDS

- A. Insecure (unencrypted) transmission of cardholder data is prohibited. Credit card numbers and cardholder data may not be emailed, faxed, or sent via any electronic messaging technologies such as instant messaging, or chat. The recipient of the credit card number will respond to the sender advising that the transaction cannot be processed and offering an acceptable method for transmitting card information. Credit card numbers will be deleted from the response.
- B. When recording credit card information for processing via telephone payments, only cardholder name, account number, expiration date, zip code, and street address may be recorded. It is not permissible to record and store the three-digit security code (CVV2). Store transaction documentation and merchant receipt in a secure (locked) area.
- C. Cardholder data should be retained in a secure location only as long as is necessary for business purposes. Cardholder data will be destroyed when no longer needed. Paper will be cross-cut shredded. Electronic files will be destroyed in a manner appropriate to the media on which they are stored as guided by The Information Technology Department.

VIII. ROTATION OF DUTY

- A. Departments with cash receipting functions should require cash handlers to take at least five (5) consecutive working days off within each 12 month period. During this time, they should have no access to City financial records or processes.
- B. If a department is short on personnel due to staff vacancies and a mandatory vacation deadline will negatively impact the department's ability to provide

services, a temporary exception may be made as approved by the Director of Finance

- C. From time to time, employee job duties should be rotated. The rotation should be of sufficient duration to discover any fraud. Besides being an effective internal check, rotation of personnel is a valuable aid in the City's overall training program as employees learn how to perform other jobs. The cross-trained employee can substitute when other employees take vacations, are absent, or are rotated.