

CITY OF LACONIA - CITY COUNCIL SUBMEETING  
Finance Committee  
6:15 pm  
City Hall - Laconia High School Huot Culinary Arts Center

1. **CALL TO ORDER**
2. **SALUTE TO THE FLAG**
3. **RECORDING SECRETARY**
4. **ROLL CALL**
5. **STAFF IN ATTENDANCE**
6. **FINANCE (Lipman (Chair), Hamel, Cheney)**
  - 6.A. **Proposal to amend the Internal Control Policy**

Documents:

[STAFF REPORT - INTERNAL CONTROL POLICY.PDF](#)  
[INTERNAL CONTROLS 2020.PDF](#)
  - 6.B. **Proposal to amend the City's Investment Policy**

Documents:

[STAFF REPORT - INVESTMENT POLICY.PDF](#)  
[INVESTMENT POLICY.PDF](#)
7. **Any other business that may come before the Committee**
8. **ADJOURNMENT**

This meeting facility is ADA accessible. Any person with a disability who wishes to attend this public meeting and needs additional accommodations, please contact Cheryl Hebert, Meeting ADA Coordinator, at City Hall by calling (603) 527-1265 at least 72 hours in advance so that the City can make any necessary arrangements.

# STAFF REPORT

October 13, 2020

**Topic:** Approval of revised City Internal Control Policy.

**Discussion:** The Internal Control Policy establishes procedures for proper control of City financial transactions and control over inventories and assets.

Council last adopted an Internal Control Policy in 2015. Effective management requires periodic review of this policy to account for new technologies, updated procedures and regulatory changes. Over the past few months Finance Department staff, working with staff from other departments, have reviewed the existing policy and propose the updates listed in the accompanying proposed policy. Major changes are noted below.

## Changes related to new technologies and processes

The proposed policy:

- Recognizes updates in secure scanning and signing of documents; allows Departments to sign and scan invoices directly to Finance.
- Removes several sections that refer to processes now covered under the IT Computer Use Policy adopted in 2019.
- Removes section related to dump coupons, which are no longer used.
- Include parking kiosks as an alternative to parking meters
- Removes references to the past arrangement with Gilford concerning allocation of Transfer Station revenues.
- Eliminates references to separate inventories in the town garage for public works and fire equipment. DPW has asked that these be combined. As a practical matter, the same inventory stock is used for all vehicles and specialty items are ordered as needed.

## Changes to tighten regulations

The proposed policy:

- Reclassifies Many processes listed as recommendations as requirements.
- Changes quarterly review of accounts receivables to monthly review
- Identifies responsible parties in several areas where the current policy was vague

## Other Changes:

The proposed policy:

- Allows individual departments to keep credit cards. Under current policy the Finance Department is tasked with maintaining physical control of all City credit cards. This change has been specifically requested by the Fire Department.

- Modifies references to rotation of duties within a department.
- Removes reference to mandated vacations of 5 consecutive days.
- Updates Welfare processes.

**Fiscal Impact:** None.

**Staff Recommendation:**

**Prepared by:** Glenn Smith, Finance Director

**Proposed Motion:**

**CITY OF LACONIA  
INTERNAL CONTROL POLICY**

Approved by unanimous vote of Laconia City Council on ~~April 13~~  
~~\_\_\_\_\_~~, ~~2015~~2020

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**INTERNAL CONTROL POLICY****Abatements:**

- All abatements with refunds due to taxpayers that have been approved by the Board of Assessors will be submitted to Accounts Payable for reimbursement. Interest of these abatements will be calculated by a clerk in the assessing department and verified by another person in the department. Attached to the Accounts Payable voucher there should be a (1) copy of the letter on the abatement; and (2) a copy of the print screen from the tax software that verifies the payment was actually made.
- A quarterly random review of these abatements will be done by the Finance Department.

**Accounts Payable (AP):**

- All AP vouchers ~~should~~ shall be signed by the department head or designee. Authorizations for sign off ~~should~~ shall be reviewed and, if needed, updated at least annually. Electronic signatures are acceptable.
- ~~All invoices presented to the finance clerk for processing should be reviewed for accuracy. The Finance Clerk or his/her designee shall review for accuracy all invoices presented for payment.~~
- ~~No payment shall be~~ Before payment is released to a vendor, until at least two of the following individuals ~~should~~ have signed off on the voucher: Finance Director, Assistant Finance Director, Purchasing Specialist or City Manager. Electronic signatures are acceptable (The AP edit report, showing overruns should accompany each batch when presented to the managers for signoff.)
- As a general rule, only original invoices will be paid. Infrequent exceptions, for unique reasons, must be approved by one of the following: Finance Director, Assistant Finance Director, Purchasing Specialist or City Manager. Invoices scanned directly to Finance by an authorized Department representative are accepted as original.
- All checks printed will be signed by the Treasurer and passed directly to the clerk responsible for mailing the checks. The mailing clerk is responsible for:
  - Checking the sequence number of the checks to the current and preceding log to be sure check numbers are all accounted for.
  - Pulling checks for employees to be disbursed with the payroll checks
  - Forwarding signed checks directly to the payee without being returned to the originators or others who are in a position to introduce documents into the cash disbursement system

- Reviewing each check and accompanying invoices and other documentation for proper sign offs; accuracy of the information of the check stub (i.e., invoices and dollars processed) before mailing the checks
  - Stapling together all supporting documents with the AP voucher and the check stub and placing the entire transaction in the financial records of the City in check number order
  - AP manifests will be posted to the Treasurer's book weekly.
- All retainage will be booked as an expense at the time the invoice is paid.
  - All fixed assets will be recorded for inventory purposes according to the fixed asset policy in place at the time the payment is made.
  - AP subsidiary ledger should be run at the end of each month and balanced to the General Ledger. Once balanced, the ledger should be given to the Finance Director or designee for review.
  - A W9 ~~should~~shall be on file for all payments before a check is released. At least annually, the clerk processing the AP vouchers should self audit their records to be sure a W9 is in place for each vendor.
  - The Finance ~~clerk~~Clerk is responsible for the coding of each disbursement for proper 1099 reporting. The Finance ~~clerk~~Clerk will be responsible for reading and understanding the IRS code related to this issue.
  - All clothing allowances disbursed to employees for taxable events will be passed on to the payroll clerk for inclusion in the next payroll processing.
  - Any blank check stock ~~should~~shall be kept in the vault under strict control.
  - Bank reconciliations will be completed monthly by a clerk in Finance, not responsible for the weekly processing of AP. The bank reconciliation should be balanced to the General Ledger within 15 days of receipt and turned over to the Finance Director for sign off once complete. Periodically, but not less than semiannually, stale dated checks (those issued over one year ago) will be moved to the GL control "Stale Dated Checks".

**Accounts Receivable (AR):**

- Monthly mailing of outstanding invoices generated from the Accounts Receivable system will be completed by the individual responsible for billing of Accounts Receivable. Accounts over 90 days past due will be reviewed monthly at least quarterly by the Finance Director~~Supervisor~~.
- The Finance Clerk will complete Fire alarm master billing ~~will be done~~ within 45 days of the beginning of the calendar year. It will be the fire prevention



specialist's responsibility to provide the Finance Department with accurate information for this billing.

- Abatements for AR will be reviewed by the originating department who will draft a memo to the AR Clerk to order the abatement. This memo should include the reason for abatement and any backup documents available ~~should~~ shall be attached. The memo will be forwarded to the Finance Director or Assistant Finance Director for review and sign off prior to the abatement of any AR invoice.
- The subsidiary ledger for Accounts Receivable will be run at the end of each month and balanced to the General ledger. Once in balance, the ledger will be forwarded to the Finance Director for review. Collection of past due accounts will be pursued by the department originating the invoice. The Assistant Finance Director will work with the departments to clear any uncollectible balances.
- Processing of payments will be done by a clerk in the Finance Department who is not responsible for the billing process. Whenever possible, the individual processing the billing should not be the person recording the payment.
- The Finance Department has been added to the list of sign-offs for Certificate of Occupancy permits. The Finance Director or Assistant Finance Director will verify that there are no outstanding invoices due to the City before sign-off on the Certificate of Occupancy.
- Modifications to Chapter 195- Special Events and Outdoor Assembly Section 195-6 Restrictions; prohibitions has been updated to include Grounds for Denial by the Motorcycle Technical Review committee to Section F:
- Any applicant or property owner having an outstanding accounts receivable due the City for previous special events on that property shall not receive an approved application until those accounts are paid in full. [Added 01-23-12 by Ordinance No. 05.2012.05]
- In the event a check received as payment for an Accounts Receivable balance is returned for NSF – the issuer of the check will need to submit cash, money order or bank certified check to cover the returned checks along with a \$25.00 return check fee. If the payment was made via a credit card or ACH transaction any fees charged by the processing institution for returned transactions will all be pursued according to RSA 638:4.
- Police False Alarms will be invoiced weekly by the Finance Dept. Any abatements for Police False Alarms must be approved by the Police Chief or designee.

**Alarm System (City Hall):**

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- ~~The Panic and Boiler alarm system shall~~ ~~This system should~~ be tested monthly by the designated individual in the Finance department. The system ~~should~~ shall be taken off line and each department's panic button should be tested to be sure the panel receives the signal. The finance department will be responsible for preparing a testing report. This report should be signed off by the Assistant Finance Director.

**Assessing:**

- After the assessing department completes the yearly update, a report of old to new values will be reviewed for changes in property values. Any property that has changed by more than ten percent (10%) of their total value, will be reviewed by the Board of Assessors.

**Asset inventories:**

- A record of all assets with an original purchase price of ~~\$1,000~~ \$5,000 or more will be monitored by the Finance department. All assets purchased with grant ~~\$-~~ funds ~~shall~~ ~~should~~ be tagged ~~by whom?~~ ~~and monitored~~. Each asset will be assigned an asset number as the bill is processed thru the Finance Department.
- ~~Each Department shall assign an individual to track~~ ~~Whenever possible, all~~ moveable assets (i.e., laptops, power washer, generators, ~~radios, cell phones,~~ etc) ~~should be assigned to an individual to track~~ and log ~~its~~ their use.
- Physical inventories of these assets will be conducted annually by each department. As this inventory is completed assets should be checked for the reasonableness on the current value assigned. Obsolete or abandoned assets will be reported to the Purchasing Specialist in order that current fixed asset inventory can be updated.
- On a surprise basis, the Purchasing Specialist (or his designee) will spot check the assets in various departments.

**Bank Accounts:**

- Establishing and closing of bank accounts shall be managed by the Treasurer or the Deputy Treasurer.
- No bank account shall be opened with the City's tax identification number (TIN) without approval of the Treasurer. The Treasurer shall be an authorized signer on all accounts opened with the City's TIN. *(For Trust bank information refer to the Trust section of Internal Controls)*
- The Treasurer shall be responsible for the collateralization of deposits at each bank. Collateralization Agreements should be in writing with each depository. The City should have all pledged collateral held in accordance with the investment policy.

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- Reconciliation of all bank accounts should be completed ~~within~~ within 15 days of receipt. Completed reconciliations done by City Clerk, Tax Collector and Finance Clerks should be signed and delivered to the Finance Director or Assistant Finance Director for review and final sign off.
- Electronic statements and checks should be stored on the City's server to ensure reproduction of information as needed. It ~~will be~~ is the responsibility of the IT ~~Department~~ Division (or designee) to monthly update the City's electronic records.\

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#### Cash:

- The central cashing function for the City ~~will be~~ is the clerk's office. The tax office will handle the processing of tax payments as well as water & sewer bills on a regular basis. All other deposits ~~should~~ shall be processed by the clerk's office except in those instances when the tax office is required to assist customers with over the counter transactions. In those cases the tax office can process the revenue through the cash receiving system.
- Unresolved variances in deposits of more than \$5.00 shall be reported to the Department Manager; those greater than \$50.00 will be reported to the Finance Director or Assistant Finance Director.
- Each clerk in both the Tax and City Clerk's office ~~should~~ shall have their own cash drawer. Each employee ~~should~~ shall lock their cash drawer whenever they are out of their work area.
- Each drawer ~~should~~ shall be balanced daily. Once balanced, the cash along with the appropriate reports will be given to the designated employee for consolidation and preparation of the deposit for bank pick up. All deposits will be verified by another individual prior to it being placed in a sealed deposit bag.
- Deposits will be made at the bank daily.
- No checks will be cashed from any City cash drawer.

#### Cash/Check Transmittals (Deposit Transmittals)

- When payments are received, an entry will be made on the cash transmittal form with the customer name, the 4 digit code for the revenue account, the cash receipt # or the check number. If the item purchased is pre-numbered (trash coupons or licenses) this # should also be indicated on the receipt and on the cash transmittal form under the purchaser's name. Transmittals delivered to the City Clerk should be prepared and verified by the department and contain signatures of the preparer and verifier.

- All Checks ~~should~~ shall be stamped upon receipt by the Department receiving the payment.
- All deposits (cash transmittals) delivered to the City Clerk’s office that are not processed immediately must be recorded on the Incoming Deposit Log. Upon delivery, the depositing department will initial the log, indicate date, time and department making the deposit. The clerk accepting the deposit will also initial the log at the time of receipt.
- The Assistant Finance Director will receive the log and will review it for: timeliness of processing, randomly trace various deposits from the transmittal sheet to the revenue posting on GL. Lack of timeliness or misposting will be reported to the Finance Director and the City Clerk.
- Upon processing of the deposit ~~at a later time~~ later, the City Clerk will have the processing clerk initial the log, indicating the date processed and the amount of the deposit.
- As a general practice, all depositors should process their deposits on the same day received, but never later than the next business day. If your department is located outside of City Hall and you are unable to bring your deposit over, contact the Finance Department and they will ~~make arrangements to come and~~ pick up your deposit for you.

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**Cash Receipts:**

- Each department accepting cash for payment must issue pre-numbered receipts from the department’s two-part receipt book. All voided receipts will be left in the book for accountability. A periodic review of cash receipts to the cash transmittal form will be conducted on a surprise basis by the ~~finance~~ Finance department ~~Department~~.

**Cell Phones:**

- It is the policy of the City to provide cell phones for individuals who need them to efficiently perform their duties.
- City Cell phones are ~~not intended for personal use,~~ to be used in a manner consistent with the City IT Security Policy.

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**City Owned Vehicles:**

- As a general practice, city vehicles will not be taken home (exceptions made for the fire chief and his deputies; police chief and undercover employees). The Finance department should be informed of any take home vehicles since ~~often~~ times there ~~can be~~ are tax consequences to these events.

- City vehicles (Motor pool vehicles) will be used to conduct City business as much as possible. Personal vehicles are to be used to conduct City business only when a motor pool vehicle is not available. Should a Motor Pool vehicle not be available when needed, the City will reimburse the employee for mileage at the Internal Revenue Service rate. Motor vehicles in the pool are signed out in the assessing office. The department will be charged ~~\$10 per hour~~ for the use of the vehicle with the revenues going to the Internal Service Fund to pay for gas, upkeep and repairs. Motor pool vehicles ~~shall should~~ not be used to conduct any personal business.
- Employees are required to notify their supervisors of any violations or summonses received while in possession of, or operating a City vehicle. Failure to do so may result in the loss of vehicle use privileges and employee disciplinary action.
- All drivers, ~~as well as~~ and passengers must wear seat belts, refrain from using electronic devices while driving and obey traffic laws. Only City employees or those who are conducting official business with the City, may be a passenger in a City owned vehicle.

**Checks Received for City Services:**

- All incoming checks must be stamped immediately on the back of the check by the Department with the “For Deposit Only” stamp.

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**Collateralization of Deposits:**

- As stated in the City Investment policy, all collateral for deposits will either be covered by securities held by a third party (the Federal Reserve whenever possible) or by surety bonds or by the Federal Home Loan Bank. Collateral should be in place prior to placement of funds with any institution. Responsibility for adequate collateral lies with the City Treasurer.

**Computers Information Systems:**

Computer hardware and software, mobile devices that connect to the network or Internet, network hardware and software, e-mail, voicemail, video conferencing, facsimile transmission, telephone, remote access services, printers, copiers, and all other printed and electronic media, as well as information and data created, developed, processed, or stored by the City that has value to the City’s business and/or operations shall be governed under the provisions of the City IT Security Policy.

- ~~As stated in the City’s computer policy, the information systems are owned by the City and are to be used for City business only. All access to these systems will be~~

~~controlled by password. Passwords should be unique for each individual and under no circumstances should passwords be shared.~~

- ~~• No software is to be installed on a computer without the approval of the IT Department. Software and other materials licensed to the City of Laconia are protected by copyright, patent, trade secret, or another form of legal protection. Therefore, no software may be copied, altered, transmitted or stored.~~
- ~~• Passwords will expire every 90 days, at which point the employee will need to select a new password.~~
- ~~• Periodically, the IT staff will review access levels to various software for its appropriateness. Special attention should be given to employees who have changed jobs and responsibilities and only those access levels required to conduct their new job responsibilities should remain in place.~~
- ~~• Computer systems for all critical applications must be backed up nightly. It is the responsibility of the IT staff to ensure that all system data is backed up and functioning properly. System Backups should be checked weekly to ensure that they are running properly.~~

### Credit Card Acceptance – Over the Counter

With the increased acceptance of Credit Cards throughout the City certain cautions should be taken.

- Credit Cards accepted Over-the-Counter will only be accepted if the person presenting the Credit Card is the person to whom the credit card is issued.
- The Customer will be notified that a processing fee will be added to the Customer's transaction.
- Transactions will only be processed for the exact amount of the sale plus the processing fee.
- ~~• The Employee will swipe the Credit Card through the Magnetic reader.~~
- All receipts for Over-the-Counter transactions must be signed by the customer and retained with the cash receipts
- A copy of the receipt will be given to the customer.
- Credit Cards cannot be used as "Certified Funds" for repayment of a returned check.
- No Credit Card data will be retained on file by the City.
- Over-the-Counter payments will be reconciled daily as part of the cash out process.
- Departments outside City Hall that accept credit cards will send a transmittal sheet daily at the end of each day to the City Clerk's office reflecting the daily credit card transactions.
- Any Credit Card transactions that are returned will be handled in the same manner as a "Returned Check" section of the Internal Controls. Returned Credit Card

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transactions will be subject to a \$25.00 return fee plus any additional fees charged to the City by the Credit Card processor.

### **Credit Card/ACH Payment – On-Line**

- Credit Card payments may be made on-line for various city services.
- EB2Gov transactions shall be processed through the City Clerk’s Office and reconciled daily.
- All transaction logs shall be initialed by the clerk complete the transactions and will be retained as outline in the Records Retention Policy of the City.
- ICloud payments for Accounts Receivable, Police Reports or permits, Parks & Recreation programs will be processed through the Finance Department on a daily basis and delivered to the City Clerk’s office for posting.
- Any Credit Card or ACH transactions that ~~is~~ are returned will be handled in the same manner as a “Returned Check” section of the Internal Controls. Returned Credit Card transactions will be subject to a \$25.00 return fee plus any additional fees charged to the City by the Credit Card processor.

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### **Credit Card Funds Transfers**

- Credit Card Transfers should be submitted weekly and also at month-end to the Treasurer or Assistant Treasure by the Reconciling Department.

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### **Credit Card Purchases**

- Credit card purchases are to be used for City purchases only, in accordance with the City’s purchasing procedures. No personal charges can be made on the credit card even if the intent is to reimburse the City. Cash advances are PROHIBITED.
- ~~Credit Cards, whether general cards such as Visa or Pcard or store cards (such as Staples, Lowes or Wal-Mart) – may be obtained only with the approval of the Finance Director. Department Heads are responsible for the use and security of cards issued to their department. Cards will be maintained by department in secure locations and will be maintained in the Finance Office under the control of the Purchasing Specialist. Cards will be~~ logged out as needed.
- Credit card accounts shall be reconciled through the AP processing system. All purchase receipts must be turned in to the Finance department with the corresponding AP voucher. All purchases shall be paid within the grace period so that no interest or penalties will accrue.
- Lost or stolen cards must be reported to the Finance Department as soon as possible.

### **Custodial safekeeping:**

- As required in the investment policy, securities purchased from any bank or dealer including appropriate collateral will be placed with an independent third party for custodial duties.

**Decals-State:**

- As decals are delivered from the State, ~~the~~ the individual designated by the City Clerk will audit all decals to be sure they are consecutively numbered and all inclusive. Once verified, these decals will be placed in the vault in a secure area. As various clerks retrieve decals the numbers of those taken will be recorded on a log that will be signed by the receiving party.

**Disbursements from Bank Accounts:**

- All disbursements from bank accounts are under the control of the Treasurer, Deputy Treasurer or designee.
- All bank transfers, whether on-line or made directly at the bank, will bear the initials/signature of either the Treasurer or Deputy Treasurer.
- All checks will be signed by the Treasurer or Deputy Treasurer. Electronic signatures keys/equipment will be under the control of the Treasurer or Deputy Treasurer at all times.
- Checks payable to “bearer” or “cash” are prohibited as ~~well as are~~ the signing of blank checks or altered checks.
- All checks ~~should~~ shall be forwarded directly to the payee without being returned to the originators or others who are in a position to introduce documents into the cash disbursement system.

**Drop box:**

- A mail slot and drop box are located in the front lobby of the City Hall building. This box will be opened daily by the tax department and all deposits will be processed by the appropriate department; either the Tax Department or the City Clerk as appropriate under this policy.

**~~Dump coupons:~~**

- ~~Sale of dump coupons will be issued by the tax and city clerk’s offices as well as the public works department who will have a limited supply. Each office will have a pad (block) of coupons. Coupons maintained in each department should be issued in consecutive number order. The inventory of coupons should be maintained in the City Clerk vault. A log should be maintained indicating which coupon blocks are issued to each department.~~

**Electronic Deposits:**

- All payments made by the State by Electronic Deposit are confirmed by the State via fax/email at least one day before receipt. This fax/email ~~should~~ shall be



delivered to the Finance Director or Assistant Finance Director for processing directly to the General Ledger. The ~~assigned individual~~ Assistant Finance Director in the Finance Department will also record this deposit in the Treasurer's book.

#### Electronic Transfers

- State Motor Vehicles Fees collected for vehicle registrations will be reconciled and electronically sent on a daily basis to the State by the City Clerk or designee.

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#### Escrow accounts:

- The responsibility of the escrow accounts on a day to day basis will fall with the department requiring such escrow account (usually planning or public works). The initiating department will deliver a copy of the check to the Finance Department for recording.
- The Finance ~~department~~ Department will be is responsible for balancing the control monthly and delivering the balanced file via email to the Finance, Public Works, and Planning Directors.
- Public Works and Planning will be responsible for the timely review of those reports and the timely release of funds. Periodically, meetings will be held with the Finance Director or Assistant Finance Director on the status of escrow holdings over 500 days old.

#### Fee Review:

- To ensure adequate coverage of our costs related to various provided services in the City, each department head will be responsible periodically for completing an analysis ~~annually on of~~ the fees charged in their department. Once the analysis is complete, the results of the analysis must be reported in writing to the council. This analysis should include any recommendations for changes in the current fee structure.

#### Fixed Assets:

- The recording of major capital assets (i.e., buildings) will be broken down into components when ever the life of these components vary. One asset number ~~should shall~~ be assigned to the overall asset with letter extensions (i.e., 666A, 666B, 666C).

#### Grants:

- It is the responsibility of each department to apply for grants; to understand the requirements of the grant; the allowable expenses and the timing of the expenditures for each grant and the process to receive reimbursements. All requests for reimbursement will be reported to the Finance Department when submitted.

- The Finance Department will track grant revenues and disbursements, and forward a summary monthly to each Department. All reporting to the agency will be done by the departments provided the grant.

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#### **Inventory Tracking:**

- Internal Service Fund: Inventory tracking for Internal Service inventories (~~at the Public Works and Fire station~~) will be physically counted by the Public Works Department at least annually, near the end of the fiscal year. These inventories should be forwarded to the Finance Director or designee so that proper adjustments can be made to the General Ledger.
- City Hall: All small amount of common supply inventory, such as envelopes and letterhead will be controlled by a clerk in the Finance Department. Inventory items will be posted as an asset until such time as it is disbursed to a department. This inventory will be verified and charged at least quarterly to the departments.
- All inventory will tracked on a first in/first out basis.

#### **Investments:**

- The written policy for investments will be reviewed, revised and approved by the council on an annual basis. A list of permissible investments will be included in the policy along with the State approved list of banks.
- To ensure segregation of duties, the individual conducting the investment transaction will provide a copy of the settlement data (i.e., copy of the Certificate of Deposit; copy of the receipt for deposit; wire transfer etc) to the Finance Director or Assistant Finance Director who will make the General Ledger entries to the appropriate accounts.
- Should the investment officer, at any time, delegate his authority to perform investment duties or make decisions regarding investments this authority must be in writing.
- A separate binder will be kept in the Treasurer's office with all of the Certificates of Deposit (CDs) records. The Treasurer will keep a schedule of the due dates on these CDs.
- The Treasurer will review periodically the collateral reports sent from the Federal Reserve Bank (via email) to be certain we have enough collateral to cover our deposits at the various banks. Any shortfalls should be followed up with the bank.
- Periodic review of the procedures in place will be done by the Finance Director or designee to be certain all controls are functioning properly and in compliance with the investment policy.

**Pre-ordered Licensing and Permit Stock**

- All licenses and permits will be ordered pre-numbered.
- A small working supply (depending on the time of the year this working supply could vary in size from 5-25) will be assigned to the individual responsible for this function.
- A responsible individual, (other than the person that completes licenses and permits) will control the stock of unused licenses and permits (not in the working supply) and will maintain a log to track the dates that batches of license/permit stock were issued for working supply. The individual receiving the working supply stock will sign the log to indicate receipt and the acceptance of responsibility.
- All unused stock of licenses and permits will be stored in a secure, locked area.

**Parking Meters/Parking Kiosks:**

- Collection ~~of all from~~ parking meters and parking kiosks will be done under dual control by two Public Works employees. These receipts will stay under dual control until such time as the deposit is made at the bank.
- One set of keys to the parking meters/parking kiosks will be kept under the control of the Public Works Office Manager. Keys will be logged in and out as needed for servicing the meters. All spare keys will be kept in a locked cabinet in the Finance Department under the control of the Purchasing Specialist.

**Parking Tickets:**

- Payments for parking tickets will be handled by the Tax & City Clerk Department.
- The police parking ticket software will be updated by the assigned clerk at least weekly to reflect all parking tickets collected.
- Parking tickets over 120 days past due will be sent a reminder notice by the Police Department. A flag will be placed on the motor vehicle software registration system for all past due parking tickets belonging to residents of Laconia. All tickets must be paid in full in order to register any vehicle.

**Payroll:**

- Time sheets must be submitted by all ~~non-exempt~~ employees weekly. They must be signed-approved by the supervisor, department head or their designee.
- The payroll edit will be reviewed and signed off by the Personnel Specialist or the Supervisor of the payroll clerk before the printing of checks. The Finance

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Director or Assistant Finance Director will review the payroll reports including payroll increases, time sheets, deductions, etc on a weekly basis and sign off on the detailed report.

- All deductions, including direct deposits, from an employee's pay check ~~should~~ shall be supported by signed authorization from the employee unless the deduction is in accordance with NH State Law.
- The payroll clerk ~~will be~~ is responsible for ~~becoming~~ being familiar with the IRS regulations related to taxable clothing allowance, vehicle use, processing of 941s, W2s as well as any State required filings on new hires.

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- Other responsibilities of the payroll clerk will include, but not be limited to the following: Unemployment, NH Retirement and ICMA timely remittance and reporting; as well as balancing all payroll related accounts to the General Ledger on a monthly basis and remittance of those reports related to these reconcilements to the Finance Director or designee for proper timely recording. These reconcilements should be done within the first 15 days of each month. Those supported by sub-ledgers should be forwarded to the Finance Director or Assistant Finance Director via email.
- Bank reconciliations will be completed monthly by a clerk in Finance, not responsible for the weekly processing of Payroll. The bank reconciliation should be balanced to the General Ledger within 15 days of receipt and turned over to the Finance Director or Assistant Finance Director for sign off once complete. Periodically, but not less than semiannually, stale dated checks (those issued over ~~one year~~ 90 days ago) will be moved to the GL control "Stale Dated Checks".

**Petty Cash:**

- Petty Cash is for official business only, specifically for the making of change to a customer or reimbursement of small amounts for items purchased by employees for business. Reimbursements of up to \$25 can be made to an employee after review of the appropriate paid receipts.
- Petty Cash funds can only be established with the consent of the Finance Director. The cash amount will be determined by the Finance Director based on its purpose.
- Petty Cash should be kept in a locked environment under the control of one individual when not in use.
- A receipt will be issued by the Department Manager or designee(s) for each payment made out of petty cash. This receipt must be signed by both parties handling the transaction.
- At all times the total receipts added to the cash remaining in petty cash must equal the predetermined petty cash base. Under no circumstances will anyone use

personal funds to compensate for shortages. All shortages must be brought to the attention of the Finance Director or Assistant Finance Director immediately upon discovery.

- Replenishments to petty cash should be made out on AP vouchers to a designated person in each department. The AP vouchers should have the reconciliation of the petty cash account attached, signed off by the manager or assistant manager of the department. Confirmation of the balance on hand at the time of replenishment should be verified and recorded by someone other than the petty cash clerk.
- It will be the responsibility of the department head or office manager in each department to conduct surprise audits of petty cash. These audits will be done under dual control by the department supervisor, office manager or department head who will document the count and have the employee responsible for petty cash countersign the audit sheet. This tally sheet will be passed on to the finance department for logging and retention.
- No checks will be cashed from petty cash. IOUs are prohibited.
- Disbursements of over \$25.00 from petty cash require the prior approval of the Finance Director.

**Physical securities:**

- As stated in the investment policy, the City will avoid the purchase of physical securities. Book entry securities are preferred.

**Purchase Orders (POs):**

- Will be used by all departments as required under the Purchasing guidelines. The signers of POs will be updated at least annually and more frequently when signers are eliminated or added.
- Access levels to the PO software by all individuals will be reviewed and revised as needed but at least annually by the Purchasing Specialist.
- Monitoring of adherence to the PO procedures will be reviewed periodically by the Purchasing Specialist or his designee.
- At the end of each month the subsidiary ledger for POs will be run and balanced to the General Ledger. This sub-ledger should be given to the Assistant Finance Director.

**Record Retention**

- Records related to deposits including receipt logs, transmittal form, customer receipt books, etc should be retained for a minimum of 5 years. Other records maintained by departments must follow the **RSA 33A 3-a** governing retention or the City Records Retention Policy, whichever is longer.

**Red Flag Rules (RFR):**

- A separate policy to address the RFR will be confirmed ~~annually-periodically~~ by the ~~council~~Council. Training for those affected will take place with the Laconia Water Works.

**Returned Checks/ Credit Card Chargebacks:**

- Responsibility for collection of returned checks lies with the department depositing the check at the bank. In some instances, it is appropriate to involve the department that actually transmitted the check to the clerk’s office.
- The Department that originated the check shall contact the issuer by certified mail, return receipt requested of the incident and advise them they need to submit cash, money order or bank certified check to cover the returned check, plus a \$25 return check fee, plus any fees charged by the processing institution.
- Uncollected NSF checks should be reviewed monthly and once they reach 90 days on the books should be charge off. To charge these items off the Department Head should write a memo to the Finance Director indicating the amount of the check and the revenue account it should be charged to.
- Any person and or business that issues a check to the City that is returned for Insufficient Funds more than twice in a year will be required to make any and all future payments to the City by Cash, Bank Check or Money Order.
- Returned checks for Motor Vehicle transactions will result in suspension of the Registration by an Administrative Complaint filed with the State of NH-DMV within 10 days of certified mailing.

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**Revenues Reconcilements:**

- Revenue Reconciliations will be conducted quarterly by the Department collecting the funds. The Finance Department will provide detail revenue reports to each department to confirm the amounts posted to GL are the same as those recorded in the Department records.
- Documented evidence of this reconciliation must be retained for a period of at least 18 months.

**Rotation of Duties:**

- The department heads in the tax, city clerk and finance areas shall make all reasonable efforts to will be responsible for the rotation of duties on a surprise

~~basis. At least once per quarter duties should be rotated to~~ ensure cross training of staff to various processes and applications, as well as for internal control purposes.

**Safety policy:**

- No employee should be left alone in their department with a taxpayer or client after the doors are locked for the day. Every taxpayer or client leaving the office after the doors have been locked must be escorted by an employee to the outside exit door.

**School Lunch Deposits:**

- School Lunch Deposits are deposited by the School directly at the bank. The deposit will be recorded by the City Clerk upon verification that the deposit has been recorded by the bank. In most cases this will be the day after the deposit is made at the bank.

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**School Warrants:**

- School warrants will be delivered along with printed checks to the finance department periodically for treasurer's signature.
- A transfer request will be completed by the clerk (copy to the Finance Director or designee) and delivered to the Treasurer along with the checks
- The Treasurer will sign completed request and file the request with a copy of the on-line transfer or bank receipt.
  
- Upon receipt of school warrants, the clerk will verify for proper sign off on the warrant by at least two school board members. The checks will be released to the department for mailing and distribution once appropriate signatures have been obtained.
  
- The Treasurer's book will be updated at the time of the transfer.

**Separation of duties:**

- Whenever possible, the person who authorizes or performs the transaction will not be the person who records or otherwise accounts for the transaction.

**Stale Dated Checks:**

- Following the requirements of State law, the finance clerk will remit stale dated items on the Abandoned Property report due to the State each November 1<sup>st</sup>.

**Tax Collector:**

- If the Tax collector finds a discrepancy of ½ percent of 1% or more between the amount of the warrant as committed to the tax collector and the total property tax commitment calculated by the commissioner of revenue administration (RSA 21J:34), the collector shall return the warrant to the assessing officials for correction. If a correction cannot be made to generate a warrant with less than ½ percent discrepancy, the assessing officials shall submit a revised property

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summary inventory of valuation form as required by law. The city will not issue property tax bills until such discrepancy is resolved.

- Once work for the day is balanced and deposit is prepared two individuals should sign off on the deposit ticket sent to the bank.

#### **~~Transfer Station Coupons:~~**

- ~~• Since we discourage cash payment for services at the transfer station, we will strictly enforce the use of coupons. Coupons will be sold at the City Clerk and Tax Collector offices as well as at the office in the Department of Public Works.~~
- ~~• The inventory supply of coupon tickets will be kept at City Hall in the City Clerk office. A pad of coupons will also be kept, for convenience purposes, at the Public Works Department. Whenever the Public Works department comes to city hall to pick up a supply of coupons, the serial numbers of those tickets will be recorded on the designated log sheet and the employee picking up the coupons will sign for them.~~
- ~~• Cash receipts will be given out by the Public Works Department whenever a coupon is sold. The cash transmittal sheet submitted to City Clerk with the cash will include not only the amount collected but the serial numbers of the tickets that are sold.~~

#### **Transfer Station, Recordkeeping and Billing:**

- The transfer station attendant will be responsible for maintaining the working supply of cash at a level of under \$~~25~~125. All other cash should be kept in the designated reserve area during operating hours. The working supply of cash will be locked in a secure location at the end of each day.
- In order to maintain a secure environment, the door to the transfer station ~~should~~ shall remain locked during business hours.
- The transfer station attendant will be responsible for balancing the tickets for the day to the receipts. Daily deposits will be made to the City Clerk's Office. ~~Following full implementation of the SMS system, daily~~ Daily deposits will be made at the bank's night depository, or at a bank teller window whenever the bank is open. A fax or email of the work reconciliation, along with the cash transmittal sheet, shall be forwarded to the City Clerk's Office daily.
- Discrepancies in the cash transmittal identified by the City Clerk's office will be booked to over and short with a copy of the transmittal sent to the Office Manager in the Public Works department. Once discrepancies are identified correcting entries will be sent to the Finance Director for processing.

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- ~~All prepaid coupons collected at the transfer station will be stamped as received and stapled to the transmittal sheet submitted to the City Clerk for processing weekly.~~

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- The responsibility of tracking and recording accurate tonnage will be done by the Office Manager in the Public Works department. At least weekly, the City records will be balanced to the vendor's records.

- ~~The calculation of revenues due to Gilford will also be the responsibility of the Office Manager. Preparation of the AP voucher will be completed at the end of each month and forwarded to the Head of the Department for sign off. Records of the new fees (additional \$10/ton) will also be tracked by the Office Manager, along with any invoices paid from this revenue. This tracking report will be forwarded to the Finance Director at least monthly.~~

- At the end of each month the Office Manager will forward the scale ticket summary by customer to the Finance Department for billing purposes by the 5th of the month. All payments will be made directly to the Finance Department.

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#### Travel & Meal reimbursements:

- All hotels in NH shall be paid in advance by the City.

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- Hotel rooms paid for by the employee will only be reimbursed for the cost of the room. The City will not reimburse employees for the NH rooms and meals tax.
- All meal reimbursement requests must be accompanied by a detailed receipt. Tips for service will be reimbursed up to 15%. The City will not reimburse for any alcoholic beverages.

#### Treasurer:

- May delegate duties to the staff in the Finance ~~department~~Department. This delegation must be in writing. Deposit authority shall be made annually to the Tax Collector and City Clerk.

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#### Trust Funds:

- Putnam Fund-authorization of payment of invoices at least 3 members of the Advisory Committee must sign off on the voucher before it is released for payment.

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- Cemetery Funds: At the end of each fiscal year the Finance Department will send the required perpetual care detail to the cemeteries. This will show the cemetery what they have available in each account along with the total amount available to expend. In order to withdraw these expendable funds the cemetery will write to the Trustees requesting the withdrawal. Once the letter is received a voucher will be prepared and a check will be cut. This check will be released upon receipt of the signature of a trustee on the AP voucher.

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- Scholarship funds: These funds are awarded by the Trustees in coordination with the schools. Once the awards have been identified the trustees will provide the finance department with this information so accruals can be booked; and award letters drafted to include any conditions related to the scholarship and instructions on how to access the funds. These letters will be signed by the trustees.

**Vacations:**

- ~~Each department head will be responsible for making sure that all employees handling cash or cash like transactions on a regular basis (ie, all city clerk, tax, and finance employees, as well as some code, planning, solid waste employees) take at least five consecutive working days off per year. Exceptions can be made with approval of the Finance Director.~~

**Welfare:**

- ~~All clients have a right to apply for assistance. Except in verified emergency situations all applicants must complete an application to apply for assistance. and are encouraged to complete an application.~~
- ~~All decisions will be made by the Welfare Staff according to the written Welfare Guidelines. Guidelines will be reviewed updated annually and updated as needed.~~
- ~~All clients receiving assistance will receive a Notice of Decision clearly indicating an action plan and a mandatory budget. All clients denied assistance will receive a Notice of Decision indicating the reasons for denial.~~
- ~~The Welfare Specialist will have the authority to grant one time exceptions to policy up to \$1,000. In the absence of the Welfare Director and Assistant Welfare Director, Welfare Technician has the authority to grant one time exceptions to policy up to \$500. The Specialist will review exceptions with the Purchasing Specialist prior to approving the voucher for the Client.~~
- ~~All payments will be made by voucher.~~ No cash assistance will be given.
- AP Vouchers will be prepared by the ~~clerk in the~~ Welfare Technician office and signed by the ~~Specialist~~ Welfare Director or Assistant Welfare Director. ~~These Signed vouchers will be delivered to the Welfare Director or the Purchasing Specialist for review and sign off, before they are remitted to AP for processing.~~
- Checks prepared by Accounts Payable to honor vouchers will be mailed by the Finance Department except in situations where the client's name must be included with the payment, then, the Welfare Department will be responsible for the mailing.

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- Property and Civil Liens, as well as expected reimbursements will be tracked by the Welfare department throughout the year. New and released liens ~~Liens~~ should be reported to the Tax Department ~~(both new and released)~~ for flagging of the properties. The Welfare Technician will give the Finance Director ~~will receive a~~ record of these liens and reimbursement at the end of the fiscal year along with supporting documentation for any additions or removals from the property and civil lien list. The Finance Director ~~will be~~ is responsible for the bookkeeping adjustments to the General Ledger.

**INTERNAL CONTROL  
SIGN OFF SHEET:**

I have read and understand the Internal Control Policy revised by the Council in ~~April~~  
2015 2020.

_____	_____
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# **STAFF REPORT**

October 13, 2020

**Topic:** Approval of City Investment Policy.

**Discussion:** The Investment Policy establishes priorities used by the City Treasurer and the Trustees of Trust Funds in determining proper investment of City funds.

RSA 47:6 requires periodic review of the City Investment Policy by Council. In recent weeks staff has reviewed the policy most recently adopted in 2012 and has concluded that the current policy provides an effective set of guidelines that ensures the safe and prudent investment of public funds. Several minor housekeeping updates are proposed, and the appendices have been updated. None of these changes materially impact the principles outlined in the 2012 policy.

**Fiscal Impact:** None.

**Staff Recommendation:**

**Prepared by:** Glenn Smith, Finance Director

**Proposed Motion:**

**CITY OF LACONIA**  
**INVESTMENT POLICY**  
*Adopted June 11, 2012*

It is the policy of the City of Laconia 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 and conforming to all laws governing the investment of public funds.

This investment policy applies to activities of the government with regard to investing the financial assets of all accounting funds maintained.

**Safety**

Safety of principal is the foremost investment objective. Each investment transaction shall seek to first ensure that capital losses are avoided.

**Liquidity**

The City Treasurer, as authorized by state statutes, will invest excess funds in obligations of the US Government, in the public deposit investment pool established pursuant to RSA 383:22, in savings bank deposits of banks incorporated under the laws of the State of New Hampshire or in any bank on the State Treasurer's approved list as long as perfected collateral is obtained in each case (see Appendix).

Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable US Treasury issues.

The City will participate in the New Hampshire Public Deposit Investment Pool established in accordance with NH RSA 383:22-24 when liquidity is of prime importance.

**Yield**

Yield of the portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account safety and liquidity needs first.

**Term**

~~Investments for all operating funds shall be made in maturities of eighteen months or less. Attention should be taken~~ Investments shall be purchased such that investment maturities are staggered to coincide with projected cash flow needs. Investments for all operating funds shall be made in maturities of eighteen months or less. No more than 10% of Fund Balance shall be invested in maturities of thirteen to eighteen months.

**Bids/Rates**

Before the government invests any surplus resources, a competitive telephone "bid" process may be conducted. If any specified maturity date is required, bids will be requested for instruments which meet the maturity requirement.

The Treasurer will seek to obtain market rates of return of its investments, consistent with constraints imposed by its safety objectives, cash flow considerations and state laws that restrict the placement of public funds.

## **Responsibility**

As per RSA 48:16 the Treasurer is designated as investment officer and is responsible for investment decisions and activities, under the direction of the Finance Director. The Treasurer shall act in accordance with any written procedures and internal controls. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the actions of subordinate officials.

All participants in the investment process will ~~seek to~~ act responsibly as custodians of the public trust. They will avoid any transaction that might impair public confidence.

The standard of prudence to be used by investment officials will be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investments will be made with judgment and care which persons of prudence, discretion and intelligence exercising in the management of their own affairs, not for speculation, but for investment, considering primarily safety and then liquidity of capital.

Officers and employees involved in the investment process will 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 will disclose to the City Manager any material financial interests in financial institutions that conduct business within the city and they will further disclose any large personal financial investment positions that could be related to the performance of the city portfolio.

## **Insurance**

To protect against potential fraud and embezzlement, investment officials will be bonded to protect the public against possible embezzlement and malfeasance. Safekeeping procedures shall be reviewed by the independent auditor.

## **Internal controls**

The Finance Director will be responsible for establishing and maintaining an internal control structure designated to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure will be designed to provide 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.

The internal controls will address the following points:

- a. Control of collusion. Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- b. Separation of transaction authority from accounting and recordkeeping. By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- c. Custodial safekeeping. Securities purchased from any bank of dealer including appropriate collateral will be placed with an independent third party for custodial duties.
- d. Avoidance of physical securities. Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must



be properly safeguarded against loss or destruction. The potential for fraud and loss increase with physically delivered securities.

- e. Clear delegation of authority to subordinate staff. Should the investment officer delegate any of his authority to another person in the city and written record of this authority should be in place.
- f. Written confirmation of transactions for investments and wire transfers. These confirmations will be forwarded to the Finance Director for proper recording.

### **Diversification**

The investments shall be diversified by:

- limiting investments to avoid over concentration in securities from a specific issuer or business (excluding US Treasury securities)
- investing in securities with varying maturities
- continuously investing a portion of the portfolio in readily available funds including NHPDIP, money market funds or overnight repurchase agreements to ensure appropriate liquidity is maintained in order to meet ongoing obligations.

### **Repurchase Agreements**

REPOs shall be consistent with the GFOA Recommended Practices of Repurchase Agreements (See Appendix).

### **Collateralization**

As recommended by GFOA Recommended Practices on the Collateralization of Public Deposits (see Appendix), full collateralization will be required on all demand deposit accounts, savings and now accounts, money market accounts and non-negotiable certificates of deposits. FHLB letters of credit, as well as surety bonds are also considered acceptable collateral. All forms of collateral should be in place *before* the deposits are placed with the bank.

### **Exemption**

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirement of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

### **Trustees**

The Trustees of Trust Funds will invest Capital Reserve Funds and Non-Capital Reserve Funds in accordance with New Hampshire law. The statute authorizes investments only by deposit in some savings banks or in the savings department of a national bank or trust company, or in shares of a cooperative bank, building and loan association, or federal savings and loan association, in this state, in such stock and bonds as are legal for investment by New Hampshire savings banks, or in participation units in the public deposit investment pool established pursuant to RSA 383:22, and when so invested in good faith the trustees shall not be liable for the loss thereon.

Direct investments shall be made in maturities of twelve (12) months or less.

### **Review**

This policy will be reviewed annually by the City Council.

GFOA BEST PRACTICES

Collateralizing Public Deposits

GFOA recommends the use of a written agreement with pledging requirements as protection for state or local government's deposits.

Depending on applicable state or federal law, public unit deposits may be secured by collateral or assets of a bank or financial institution. In the event of the failure of the bank, the FDIC will honor the collateralization agreement if the agreement is valid and enforceable under applicable law. The FDIC does not guarantee, however, that the collateral will be sufficient to cover the amount of uninsured funds. As such, although it does not increase the Insurance coverage of the public unit deposits, collateralization provides an avenue of recovery in the unlikely event of the failure of an insured bank. FDIC insurance covers deposits up to \$250,000 for each entity. Deposits above this FDIC limit must be collateralized to ensure the safety of public funds.

Collateralization of public deposits through the pledging of appropriate securities or other instruments (i.e. surety bonds or letters of credit) by depositories is an important safeguard for such deposits. The amount of pledged collateral is determined by a governmental entity's deposit level and the policy or legally required collateral margin. Some states have established programs for the pooling of collateral for deposit of public funds. All collateralization agreements between financial institutions and public entities must adhere to state and federal laws, including FDIC regulations.

**GFOA recommends the use of a written agreement with pledging requirements as protection for state or local government's deposits. GFOA further recommends that governmental entities establish adequate and efficient administrative systems to monitor such pledged collateral, including state or locally administered collateral pledging or collateral pools. To accomplish these goals, GFOA recommends the following:**

1. Governmental entities should review applicable federal, state statutes and confirm compliance. The governmental entity should establish and follow procedures for on-going review of collateral. In addition, a periodic report of collateral holdings and compliance with state statute and local policy should be provided to the governing body or investment committee (or other committees as applicable).

2. In the absence of a state program for pooling collateral, public entities should establish and implement collateralization procedures, including procedures to monitor their collateral positions. Monitoring informs a public entity of under collateralization, which may threaten the safety of an entity's deposits, and overcollateralization, which may increase the cost of banking services. Governmental entities, however, should not accept the liability for maintaining collateral levels which is the responsibility of the financial institution.

3. Governmental entities/depositors should take all possible actions to ensure that their security interests in collateral pledged to secure deposits are enforceable against the receiver of a failed financial institution.

4. Governmental entities should have all pledged collateral held at an independent third-party institution (custodian) outside the holding company of their bank, and evidenced by a written agreement between the custodian and the government. Governmental entities should know and understand securities pledged as collateral.

5. Governments should seek a margin level of at least 100%, or as dictated by state statute. The government should also indicate its desired margin level in its investment policy. The value of the pledged collateral should be marked to market and reported monthly, or more frequently depending on the volatility of the collateral pledged. Some state statutes dictate a minimum margin level for collateral based on deposit levels.

6. Margin levels and bank balances should be monitored daily as there may be a large influx of deposits for a short amount of time (e.g., semi-annual/annual tax payments within the span of a day or two).

7. Substitutions of collateral should meet the requirements of the collateral agreement, be approved by the governmental entity in writing prior to release, and the collateral should not be released until the replacement collateral has been received.

8. The public entity should require, at a minimum, monthly reporting directly from the custodian. The custodian should warrant and be signatory to the agreement.

9. Letters of credit may be pledged in lieu of securities. The governmental entity should perform a legal review of the terms and conditions of any letters of credit. Such letters of credit must be issued by a federal agency or government sponsored enterprise (e.g., Federal Home Loan Bank, etc.) and be irrevocable.



*GFOA recommends that state and local government finance officers develop policies and procedures to ensure the safety of repurchase agreements:*

The following actions are recommended:

1. Government entities and investment officers should exercise special caution in selecting and evaluating the creditworthiness of counterparties with whom they will conduct repurchase transactions and be able to identify the parties acting as principals to the transaction.
2. Master repurchase agreements should be employed, subject to appropriate legal and technical review. Governments using the prototype agreement developed by SIFMA should include appropriate supplemental provisions regarding the types of securities, delivery, substitution, margin maintenance, margin amounts, seller representations, and governing law as contained in the GFOA-developed *Considerations for Governments in Developing a Master Repurchase Agreement*.
3. Government entities' legal department should review SIFMA's optional substitution/termination provision in its master agreement to assure no loss has incurred (e.g. in event of a default). In jurisdictions where substitution of securities is permitted, a loss provision is provided that is intended to place the repo buyer in the same position it would have been had the repo seller not exercised the substitution/termination right. However, in jurisdictions where substitution is restricted, the effect of FASB Statement No.140 may be troublesome depending on the relationship established with the bank or dealer; the jurisdiction's position with respect to the change in accounting treatment of the transaction; and whether the government has the ability to avoid the restriction on substitution of purchased securities.
4. Proper securitization practices are necessary to protect the public funds invested in repurchase agreements. Safekeeping duties should be performed by a third-party custodian in accordance with an executed agreement. The purchased securities (collateral) to collateralize the repurchase agreement should maintain a market value in excess of the value of the repurchase agreement (called margin, "haircut," or over securitization). Routine market valuing of the purchased securities during the term of the repurchase agreement should be a mandatory practice in order to ensure the purchased securities maintain sufficient market value to cover any default. A typical margin requirement for a short-term repo using US Treasuries or US agency securities as collateral is at least 102% and higher (typically 105%) for other securities.
5. Consideration should be given to restricting the allowable securities that are used for collateral. Entities may prefer to only allow for security maturity and security types that are allowable for direct investment under their policy. If there is a default of the counterparty, the securities held as collateral of the repo will be owned by the entity, supporting the need to restrict the maturity and type of security to what is allowable under policy.