



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE  
**FROM:** Scott P. Johnson  
**SUBJECT:** MACIAS CONSULTING GROUP – INVESTMENT UNIT EVALUATION REPORT AND RESPONSE  
**DATE:** May 9, 2007

Approved

*Ray Winer*

Date

*5/9/07*

**COUNCIL DISTRICT:** Citywide

## RECOMMENDATION

Accept the “*City of San Jose Investment Unit Evaluation Report*” prepared by Macias Consulting Group as supplemented by the responses prepared by the Director of Finance and forward the recommendations to the City Council for their review and approval.

## OUTCOME

Acceptance of the Investment Unit Evaluation prepared by Macias Consulting (“Macias Report”), as supplemented by the responses prepared by the Finance Department, will assist the Investment Unit of the Treasury Division to begin to move forward on evaluation of changes to processes, procedures and staffing levels which will enhance the City’s Investment Program.

## EXECUTIVE SUMMARY

The Macias Report concluded that *the City of San Jose (the City) closely adheres to their current Investment Policy and should be commended for taking seriously its commitment to protect the City from high-risk investments. In the 1980s, unwise investment decisions resulted in a \$60 million loss of public funds, and to avoid a reoccurrence, the City has created an investment policy and oversight and reporting requirements that provide greater transparency than most other large cities.* (Macias Report, Executive Summary, page 1). The Macias Report includes six Findings and 15 Recommendations on how to streamline processes and further improve the management of the investment portfolio. None of the Findings or Recommendations come as a surprise to staff, which is acutely aware of the foregone opportunities to fully utilize the

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investment instruments authorized by the City's Investment Policy which cannot be taken advantage of given current staff vacancies and technology constraints. The Finance Department will be evaluating the recommendations in terms of staffing needs. In addition, Finance/Treasury staff will be working with the Information Technology Department to survey and visit other similar sized agencies in an effort to determine what technology tools may be available to help manage the City's Investment Program.

## **BACKGROUND**

In the fall of 2006, the Finance Department engaged the services of Macias Consulting Group to undertake a review of the City's Investment Program. The scope of services in the Agreement included the following work:

- Conduct Organizational Assessment
  - Assessment of the overall efficiency and effectiveness of operations
  - Identification of recommendations to improve overall operations specific to job processes related the following operational areas: management processes and tools, human capital/resources, workloads, external coordination (e.g. communication with other divisions within the Finance Department and within other departments.), and quality assurance
- Conduct Operational Evaluation
  - Assessment the strengths and weaknesses of each of the core functions to identify potential problems in core functions and/or to identify opportunities for updating existing work processes
  - Assessment of City's investment objectives
  - Assessment of key processes for investment activities for the City's Investment Pool
  - Assessment of investment policies and review effectiveness of implementation efforts for compliance with City's Policy and generally acceptable investment practices
- Development of Draft Documents for Updating Operations
- Develop a recommended framework for updating operations and service delivery
  - Development and updating of investment activity policies and procedures.
  - Development recommendations for operational enhancements
- Prepare Draft and Final Reports
  - Prepare a draft and final reports

Macias Consulting has concluded their evaluation of the City's Investment Program. A copy of the final report is attached. Representatives from Macias Consulting will be at the May 17, 2007 Public Safety, Finance & Strategic Support Committee Meeting to make a brief presentation on their findings and answer any questions from the Committee.

It has been a number of years since the Investment Program has undergone an external review of the operations, processes and procedures within the Program. The purpose of engaging the services of Macias Consulting was to assist the Finance Department in improving operations. The Department has independently undertaken a number of improvements over the last several years, including making significant improvements to the City's Investment Program and drafting a revised policy consistent with a national model adopted by the City Council. This significant work effort resulted in the City receiving certification for the City's Investment Policy in June 2002 and recertification in August 2006 from the Association of Public Treasurers of the United States and Canada.

In FY 2006-07, additional staffing resources were added to the Treasury Division to help mitigate workload impacts experienced when the Department underwent a reorganization and consolidation of the citywide cashiering and payment processing functions which occurred at the time the City occupied the new City Hall. The Financial Analyst previously responsible for assisting the Investment Officer in the day-to-day investment activities was reassigned to overall management responsibilities for the City's payment processing and cashiering functions. This reassignment was mandated to ensure appropriate oversight of these functions as they became consolidated in the new City Hall. This shifting of responsibilities left a staffing void in the Investment Program, which was eased and allowed the organization to maintain status quo by adding a Financial Analyst in FY 2006-07.

## ANALYSIS

The Macias Report concluded that *the City of San Jose (the City) closely adheres to their current Investment Policy and should be commended for taking seriously its commitment to protect the City from high-risk investments. In the 1980s, unwise investment decisions resulted in a \$60 million loss of public funds, and to avoid a reoccurrence, the City has created an investment policy and oversight and reporting requirements that provide greater transparency than most other large cities.* (Macias Report, Executive Summary, page 1).

In addition, the Macias Report presented six findings and fifteen recommendations. The Finance Department's response to each of the findings and recommendations is presented below.

**Finding 1: San Jose's Portfolio Performance Generally Exceeded its Benchmarks for FYs 2003-04 through 2005-06**

**Recommendation 1:** *The Director of Finance should consider eliminating the benchmark of 6-month rolling average of the one-year T-Bill because historically, the City's portfolio has had "an average days to maturity" greater than 180 days.*

**City Response:** We agree with this finding and have already eliminated the 6-month rolling average of the one-year T-Bill as a benchmark from the monthly and quarterly investment reports. The annual review of the City's Investment Policy (the "Policy") was recently concluded and the recommendations/amendments resulting from that review include language to give the Director of Finance the flexibility to change the City's benchmarks according to changes in the portfolio's average days to maturity (Section 14.1 of the Revised Policy). The amendments to the Investment Policy are being considered as a separate item at the May 17, 2007 PSF&SS Committee meeting. As of March 31, 2007, the portfolio's average days to maturity were 526 days and 93% of the portfolio consists of government agencies. Therefore the currently most relevant benchmark for the City's portfolio is the two-year agency index.

**Finding 2: San Jose's Total Portfolio Performance was Comparable to Other Cities' Performance**

**Recommendation 2:** *The Director of Finance should consider selecting specific targets to meet or exceed existing benchmarks, such as .25 or .5 basis points greater than the quarterly return on LAIF or one-year moving average on one-year T-Bill.*

**City Response:** City staff does not consider this an appropriate measure of portfolio performance. Setting specific yield targets invites portfolio managers to make investment decisions solely based on yield, not the more fundamental tenets of safety of principal and liquidity to meet cash flow needs. The City's goal is to first safeguard its principal, second, to ensure liquidity to meet expenditures, and, thirdly, to earn a market rate of return on its investments.

The Investment Strategy section of the monthly and quarterly reports describes the City's investment strategy and provides a discussion on why the Investment Portfolio may or may not be performing comparable to other indices and benchmarks.

**Finding 3: San Jose's Portfolio is Concentrated in the Safest Instruments**

**Recommendation 3:** *The Director of Finance may want to consider evaluating other available investment instruments and specifically set aside staff time directed at monitoring other eligible instruments.*

**City Response:** City staff agrees with this recommendation, however, instruments such as corporate notes require more due diligence and continuous monitoring by staff, which is a difficult task to assume given the vacant Administrative Officer/Investment Officer position. The Investment Unit's current full-time staffing consists of one management/professional staff (Financial Analyst) and two accounting clerical positions. The Administrative Officer/Investment Officer position is currently vacant, with the recent retirement of the previous incumbent. When filled, this position spends about half of their time devoted to investment related matters with the balance of time on cash management/payment processing matters along with other general treasury management duties. Consistent with the direction provided in the Macias Report, the Department recommended the addition of an Investment Manager position during the budget development process to assist in developing a more comprehensive analytical approach to management of the City's investment portfolio, however, due to other City-wide budget priorities it was not recommended for inclusion in the FY 2007-08 Proposed Operating Budget. An examination of the use of more investment vehicles along with potential technological enhancements to automate and monitor this enhancement to the Investment Program will be undertaken once the vacant position is filled. FY 2008-09 Budget Proposals will be developed with results of these examinations taken into account.

**Finding 4: Buy and Hold Investment Approach Has Led to Outdated Investment Unit Operations**

A buy-and-hold strategy is generally the most prudent public funds management strategy. However, there are ways for the City to be a more active portfolio manager within the general parameter of a buy and hold investment strategy. For example, purchasing corporate notes would offer opportunities for higher yields (with corresponding increased risk, which can be mitigated by investing prudently and taking all necessary precautions) as well as opportunities to diversify the portfolio in terms of issuers.

This item has been added to the Treasury Division's work-plan, timeline for completion is dependent on the filling of the vacant position. The Department acknowledges that the City's Investment Unit's operations may be outdated and that staff spends more of its time on "*day-to-day efforts of record-keeping and reporting*" than on investment and cash flow analytics. In addition, Finance/Treasury staff will be working with the Information Technology Department to survey and visit other similar sized agencies in an effort to determine what technology tools may be available to help manage the City's Investment Program.

***Recommendation 4:*** *The Director of Finance should remove all ancillary activities such as the administration of the Executive Home Loan program, contract oversight and special projects from the duties of the current Financial Analyst.*

**City Response:** The Executive Home Loan program will be transitioned to the Accounting Division within the Finance Department. Staff is working on the transition which is anticipated to be completed by June 30, 2007.

***Recommendation 5:*** *The City Human Resources Department should implement the steps necessary to establish an Investment Officer position for the City. This position should be fully dedicated toward investment activities and tasked to watch the market more actively and take advantage of allowable instruments that require more time to research and monitor, such as corporate notes, or those that require more compliance research. The Investment Officer should be granted responsibility to restructure the portfolio as allowed within the City's policy and upon approval of the City's Investment Committee.*

**City Response:** The Administrative Officer in the Investment Unit recently retired from the City after thirty-four years of service. The Administrative Officer acted as the City's Investment Officer in this "generic" City-wide administrative classification. As part of the effort to begin recruiting to fill this position, the City's Human Resources ("HR") Department has expressed concern about continuing to use this classification to fill this vacant position. The Finance Department has commenced discussions with HR regarding creating a job series which more appropriately reflects the job duties of the professional staff in the Treasury Division (investment, cash management and debt management); however the urgency to fill the current vacant position is paramount.

The Investment Policy, Section 14.2 discusses the procedures for portfolio restructuring. No changes are being recommended at this time, given the very limited staffing resources. Until an Investment Officer has been hired, staff does not recommend moving forward with granting authority for restructuring the portfolio to the staff level. This recommendation will be reexamined after vacant positions are filled and other enhancements are made to the program, such as technology improvements and automation of manual processes.

***Recommendation 6:*** *The Director of Finance should reassign the Administrative Officer's cash management duties to another area of the Finance Department.*

**City Response:** Staff does not concur with this recommendation. The Finance Department over the last several years has worked towards strategically aligning functional areas in the Department under the direction of the four Deputy Directors. The Treasury Division includes the City's Investment, Cash Management and Debt

Management Programs. Cash management and investment management activities are closely aligned and it creates efficiencies to have these programs managed under the direction of the same senior manager.

***Recommendation 7: Upon the establishment of an Investment Officer position, the Director of Finance should work with the Human Resources Department to immediately begin recruiting activities for an Investment Officer. The Investment Officer should be hired within the next 12 months. Additional duties for this position would include organizing the operations of the unit, overseeing and administering portfolios, preparing financial and credit analyses of money markets and issuers of corporate notes, and negotiating purchases and sales.***

**City Response:** The previous Administrative Officer (civil service classification title) retired on March 30, 2007. The Investment Officer is the working title for this vacant position. The response to Recommendation 5 provides more description on the classification issues. Staff is working to fill the Investment Officer position as soon as possible in FY 2007-08 while dealing with the challenges outlined in response to Recommendation 5.

**Finding 5: Updating of Investment Unit Operations Could Position the City Well if it Chooses to Diversify its Portfolio**

***Recommendation 8: The Director of Finance should ensure the electronic maintenance and back-up of transaction records in case of an emergency are in place. To ensure the recordkeeping of supporting documentation, all data from the Daily Investment Packets should be electronically scanned and filed in an electronic folder.***

**City Response:** The Department agrees that additional electronic recordkeeping, such as automating the preparation of the daily investment control logs and integrating the logs to minimize manual entry is important. The Department recently updated the record retention schedule, which requires maintenance of investment records for four years. This retention schedule applies to both paper and electronic files. Scanning documents is a labor intensive process and the Department is not convinced there is a value over retaining paper documentation and destroying at the end of the retention period.

Additionally, the Department is examining the frequency of reporting and the nature of this reporting. If some of the internal reporting is reduced and/or streamlined, the quantity of the documentation required to be retained may be reduced.

A number of documents are currently maintained electronically including the investment transaction records, bank reports and compliance spreadsheets. This documentation is stored on the server and backed-up each night. The Sungard investment software, used

for tracking and reporting on investments, is located off-site and is backed-up every night by the provider. In addition, most of our investments are book-entry and stored and backed-up nightly by the City's custodian bank.

***Recommendation 9:*** *The Director of Finance should work with the other City staff responsible for disaster preparedness and develop a contingency plan for use by the Investment Unit in case of catastrophic or other critical emergencies. In the development for the plan for the Investment Unit, the City needs to determine whether remote access to the City's investment data is needed, including the extent of back-up and authorization procedures to guide investment activities and investment decisions during catastrophic events.*

**City Response:** The Finance Department concurs that a disaster plan needs to be developed with respect to the Investment Program. This is an important task in order to ensure that the organization can continue to have sufficient liquidity to meet cash flow needs so that bills can be paid, payroll processed and emergency cash needs be met in the event of an emergency or disaster. Part of the effort to develop a disaster plan will require examination of the equipment and technology required to be able to conduct investment activities outside of City Hall.

An initial examination has identified several areas which require coordination with the Information Technology Department such as an exception to the technology policies to allow for the purchase of laptops dedicated to specific staff within the Investment Program, and a resolution of a firewall issue currently prohibiting staff from upgrading the current investment software program (from DOS-based to web-based). Utilization of the web-based software would allow staff to connect remotely to the City's investment portfolio. The web-based software would not only help staff perform critical investment functions in an emergency, it would also streamline operations since the newer software version is more user-friendly, has more sophisticated features, and can assist in cash flow forecasting and report preparation – features the current outdated system lacks. These additional functionalities would assist in implementing portions of Recommendations 8, 10 and 11.

Sungard, the provider of the City's investment software program, offers some disaster protection in that the investment portfolio information resides in a location based in Minnesota with back-up servers in other parts of the country as well. Sungard has back-up plans in place which allow the City to retrieve data in the event of an emergency or loss of data on the City's servers.

***Recommendation 10:*** *To assist with cash flow projections and streamlining the bank reconciliation process, the Director of Finance should examine the feasibility and cost effectiveness of a web-based cash management system that can provide real-time*

*information reporting via the Internet. In the City's evaluation, it will be important to have a system that includes an automated interface with the City's FMS system.*

**City Response:** Funding has been identified in the FY 2007-08 Proposed Operating Budget to begin a needs analysis and assessment for Enterprise Resource Planning ("ERP") applications. As part of this review of replacing the City's financial management system, focus on treasury management systems and interfacing with any treasury management systems in place will be examined. As discussed in the response to Recommendation 9, the Finance Department is working with the Information Technology Department to resolve a firewall issue which is currently prohibiting staff from upgrading the current investment software program (from DOS-based to web-based). The web-based product provides more functionality to the City and would assist in better cash management activities.

**Recommendation 11:** *The Administrative Officer or Financial Analyst should automate the integration of transaction data to simplify Investment Transaction reporting. The daily transaction sheets for the Daily Investment Control Logs could be automatically generated by tying two routine daily reports by macros in an Excel spreadsheet.*

**City Response:** This item has been included in the Treasury Division's work plan. The Financial Analyst has commenced work on the automation and integration of data to simplify investment transaction reporting. The timeline to complete this project will be driven by other daily workload demands with respect to management of the Investment Portfolio and by filling the vacant Investment Officer position. Other Finance staff may be available to assist and their availability will be explored. In addition, Finance/Treasury staff will be working with the Information Technology Department to survey and visit other similar sized agencies in an effort to determine what technology tools may be available to help manage the City's Investment Program.

**Finding 6: Investment Reporting Could be Revamped to Increase Value**

**Recommendation 12:** *The Finance Director should consider weekly internal reporting as a more realistic approach to internal reporting, instead of the daily reporting that is currently required. Or the Finance Director may consider setting thresholds of investments that would need to be approved and reported on frequently if concerns exist. While the City's investment strategy remains status quo (buy and hold), the Finance Director should consider eliminating the daily investment reporting requirement and instead review and approve a weekly report, with the exception of major transactions which require separate top level management approval.*

**City Response:** Staff is currently researching options for reducing the frequency of reporting and the associated paperwork in an effort to move away from the “*day-to-day efforts of record-keeping and reporting*” focus of the Investment Program to more of a focus on analytics and portfolio analysis. Staff will examine the reporting requirements of the internal operating procedures and make revisions as appropriate. Hiring of the Investment Officer will also provide an opportunity to bring additional thoughts and input to the City’s program.

**Recommendation 13:** *To increase stakeholders’ comfort level with the Investment Unit’s activities, the Finance Director should work toward implementing improvements in monthly and quarterly reports to show how the City’s investment objectives are being achieved.*

**City Response:** Staff is currently working on improving the content and format of the monthly and quarterly reports. As part of that effort, the Proposed Changes to the Investment Policy (Section 15.1 and 15.2) include a regrouping of the items to be reported in the quarterly and monthly investment reports to create a flow and to focus the discussion on distinct areas including portfolio statistics, portfolio performance, compliance reporting requirements, investment trading activity and investment strategy (for the quarterly report).

**Recommendation 14:** *To improve the Average Yield Trend Comparison Chart, the Finance Director should:*

- *Reduce number of lines to existing benchmark yields only. Reduce to the maximum of three trend lines for comparison.*
- *Label each yield line on the graph with yield percentages for the reporting period.*
- *Add a paragraph of performance analysis explaining the City’s yield, what economic conditions caused the trends, and explain comparison of the benchmarks to the City’s yield, and why the City did or did not meet the benchmarks.*

**City Response:** The Department is actively working to update the quarterly and monthly investment reports. The number of trend lines has been reduced and is incorporated in the Third Quarterly Investment Report (which is part of the May 17<sup>th</sup> PSF&SS Committee agenda). The Investment Strategy section of the monthly and quarterly reports describes the City’s investment strategy and provides a discussion on why the Investment Portfolio may or may not be performing comparable to other indices and benchmarks. Additionally, reporting improvements will evolve as staff continues to examine the reports and receives feedback from Council members, City staff and other users of the reports.

***Recommendation 15: The Finance Director should consider presenting an annual “Investment Year in Review” to the Council (not on consent) describing activities of the Investment Unit, explaining compliance with State Government Code and City policies, the interest rate environment, key performance measures and analysis as previously mentioned, and list of accomplishments such as amount of the total portfolio balance maintained, increased income from various investment instruments in comparison to prior years, whether or not portfolio performance met or exceeded benchmark returns, and finally, by how much General Fund interest earnings exceed projections. Additionally, the City Auditor should be invited to review the investment program on an annual basis.***

**City Response:** This item has been added to the Treasury Division’s work-plan. Staff has begun to collect sample reports from other agencies and will research how an annual Investment Report can provide summary information to the City Council and the public. The Department will work towards a goal of preparing a report for Fiscal Year 2007-08. In its report on the annual review of the City Investment Policy, staff is recommending amending the Policy to invite the City Auditor to review the investment program for compliance with the Policy at least semi-annually.

**ALTERNATIVES**

Not applicable

**PUBLIC OUTREACH/INTEREST**

Not applicable

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

**COORDINATION**

The response to the Investment Unit’s Evaluation has been prepared by the Finance Department in coordination with the City Manager’s Office, City Attorney’s Office, City Auditor,

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Redevelopment Agency, Human Resources Department and Information Technology  
Department.



SCOTT P. JOHNSON  
Director, Finance

For questions, please contact Scott P. Johnson, Director, at (408) 535-7000.

**MACIAS**  
CONSULTING GROUP



**City of San Jose  
Investment Unit Evaluation**

**Final Report Submitted to the  
Director of Finance**

**MCG Contact  
Denise Callahan, Director**

**3000 S Street, Ste. #300  
Sacramento, CA 95816**

**916.779.3520  
dcallahan@maciasconsulting.com**

**April 9, 2007**

## EXECUTIVE SUMMARY

The City of San Jose Director of Finance requested Macias Consulting Group, Inc. (MCG) to assess the overall operational efficiency and effectiveness of the City's Treasury Division's Investment Unit (Unit). To accomplish our objectives, we undertook a review of the Unit's investment performance, organizational structure, operating environment, work processes, and reporting activities.

We found that the City of San Jose (the City) closely adheres to their current Investment Policy and should be commended for taking seriously its commitment to protect the City from high-risk investments. In the 1980s, unwise investment decisions resulted in a \$60 million loss of public funds, and to avoid a reoccurrence, the City has created an investment policy and oversight and reporting requirements that provide greater transparency than most other large cities.

Our review of the City's investment performance shows that the Unit generally met its performance measures from FY 2003-04 through FY 2005-06, but slightly underperformed in yield earnings when compared to peer cities during FY 2005-06. The City's steadfast commitment to preventing investment losses may be hindering the City from earning greater returns on investment because it is not taking full advantage of the different types of investment activities as allowed by their current investment policy, and therefore, may be losing potential interest earnings. The City has a passive investment strategy of "buy and hold", meaning that the City primarily purchases investments and holds them until they mature, regardless of fluctuations in the market.

The Investment Unit's operational structure has been shaped by the City's "buy and hold" strategy and is organizationally structured around transaction processing for accounting purposes rather than investment analysis and strategy. As a result, the Investment Unit is not well positioned pertaining to organizational structure, staffing, functional responsibilities, technology, and reporting mechanisms, to be more of an active investor for the City. Even without changing the City's investment policy and their "buy and hold" philosophy, the City may be able to earn additional yield by updating the Investment Unit's operations, structure and transferring workloads so that current staff can more actively manage the portfolio. However, we encourage careful planning so that the new infrastructure and related work processes established for the Investment Unit will provide the best controls for investment activities, while maintaining the core principles of safety, liquidity, and yield.

In the following pages, we include a summary of our six findings and 15 recommendations to increase the efficiency and effectiveness of the Investment Unit.

**Finding 4: Buy and Hold Investment Approach Has Led to Outdated Investment Unit Operations**

The types of specific functions performed, such as maintaining logs, recording transactions, and reporting on portfolio performance are characteristic of the City's investing in primarily government securities. The Investment Unit staff primarily concentrates their day-to-day efforts on record-keeping and reporting on the transactions initiated by the City. With a portfolio heavily comprised of U.S. Government Securities, more investment analysis and research is not needed. If the Investment Unit wanted to handle more complex instruments, we determined that its current organization is not conducive to implementing the activities necessary in managing the other investment types. Specifically, the positions established within Investment Unit are not adequately structured to handle increased investment activity or equipped to administer more proactive investment activities allowed under the City's investment policy.

**Recommendation 4:** The Director of Finance should remove all ancillary activities such as the administration of the Executive Home Loan program, contract oversight and special projects from the duties of the current Financial Analyst.

**Recommendation 5:** The City Human Resources Department should implement the steps necessary to establish an Investment Officer position for the City. This position should be fully dedicated toward investment activities and tasked to watch the market more actively and take advantage of allowable instruments that require more time to research and monitor, such as corporate notes, or those that require more compliance research. The Investment Officer should be granted responsibility to restructure the portfolio as allowed within the City's policy and upon approval of the City's Investment Committee.

**Recommendation 6:** The Director of Finance should reassign the Administrative Officer's cash management duties to another area of the Finance Department.

**Recommendation 7:** Upon the establishment of an Investment Officer Position, the Director of Finance should work with the Human Resources Department to immediately begin recruiting activities for an Investment Officer. The Investment Officer should be hired within the next 12 months. Additional duties for this position would include organizing the operations of the unit, overseeing and administering portfolios, preparing financial and credit analyses of money markets and issuers of corporate notes, and negotiating purchases and sales.

Finally, reports depicting the “Average Yield Trend Comparison”, is currently a series of four colored lines that populate a graph depicting a full year of yield trends that compare the earned interest yield of the City’s portfolio with the monthly average yields for the LAIF, the one-year U.S. Treasury and U.S. Government Agency securities. The amount of lines make the graph difficult to read and the actual values of the yields for each measure are also not labeled on the graph itself.

**Recommendation 12:** The Director of Finance should consider weekly internal reporting as a more realistic approach to internal reporting, instead of the daily reporting that is currently required. Or, the Director of Finance may consider setting thresholds of investments that would need to be approved and reported on frequently if concerns exist. While the City’s investment strategy remains status quo (buy and hold), the Director of Finance should consider eliminating the daily investment reporting requirement and instead review and approve a weekly report, with the exception of major transactions which require separate top level management approval.

**Recommendation 13:** To increase stakeholders’ comfort level with the Investment Unit’s activities, the Director of Finance should work toward implementing improvements in monthly and quarterly reports to show how the City’s investment objectives are being achieved.

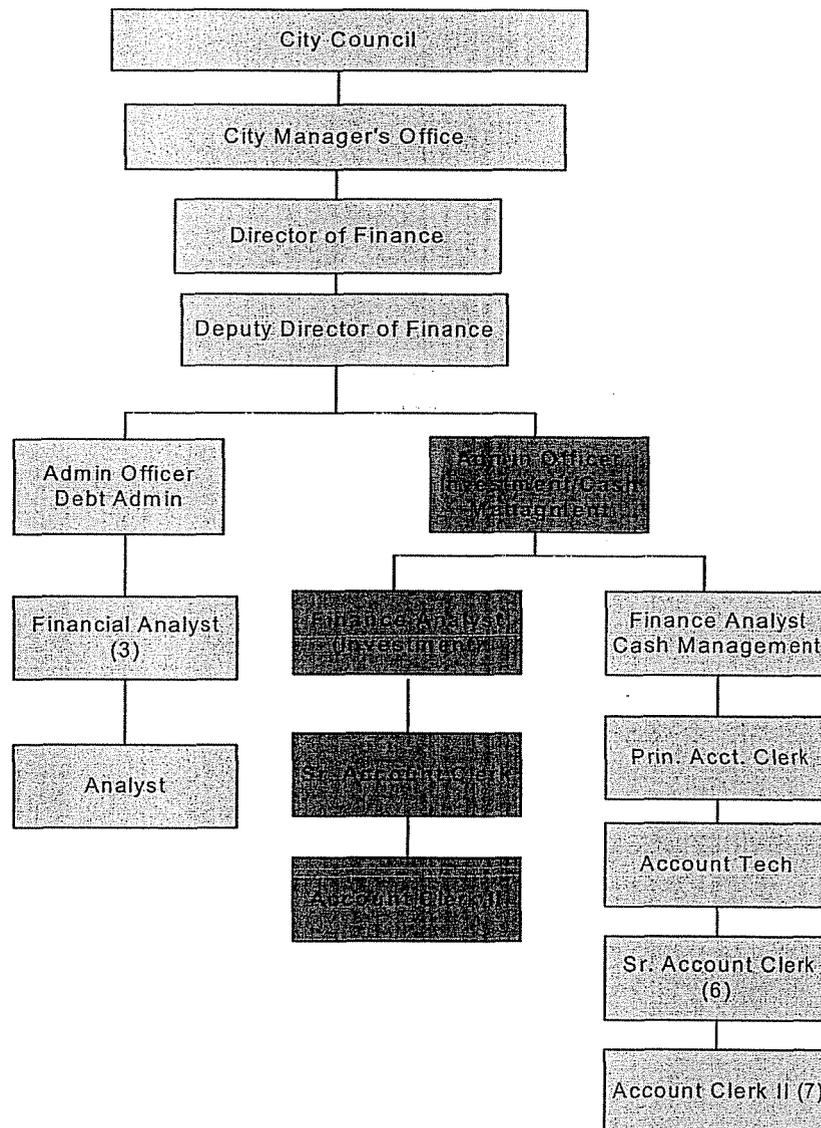
**Recommendation 14:** To improve the Average Yield Trend Comparison Chart, the Director of Finance should:

- Reduce number of lines to existing benchmark yields only. Reduce to a maximum of three trend lines for comparison.
- Label each yield line on the graph with yield percentages for the reporting period.
- Add a paragraph of performance analysis explaining the City’s yield, what economic conditions caused the trends, and explain comparison of the benchmarks to the City’s yield, and why the City did, or did not meet the benchmarks.

**Recommendation 15:** The Director of Finance should consider presenting an annual “Investment Year in Review” to the Council (not on consent) describing activities of the Investment Unit, explaining compliance with State Government Code and City policies, the interest rate environment, key performance measures and analysis as previously mentioned, and list of accomplishments such as amount of the total portfolio balance maintained, increased income from various investment instruments in comparison to prior years, whether or not portfolio performance met or exceeded benchmark returns, and finally, by how much General Fund interest earnings exceed projections. Additionally, the City Auditor should be invited to review the investment program on an annual basis.

The Investment Unit is situated within the Treasury Division and includes the Administrative Officer, a Financial Analyst, a Senior Account Clerk and an Account Clerk II. An additional clerical position also assists in daily functions and provides back-up for the Unit. The Administrative Officer also oversees the Cash Management Services Unit in the Treasury Division, and has a Financial Analyst on the Cash Management side to serve as back-up. The Deputy Director of Finance provides the day-to-day management of the Unit. See Figure 1.0 for an organization chart, which focuses on the Investment Unit.

Figure 1.0: Current Organization Chart



"home rule," granting to them, independent of the legislature, direct control over local affairs. Although a Charter City, the City of San Jose's Investment Policy is written in accordance with the State Government Code regarding public investments.

## EVALUATION OBJECTIVES, SCOPE AND METHODOLOGY

Our evaluation objectives were to:

- 1) assess the overall efficiency and effectiveness of the City's Investment Unit operations;
- 2) assess the strengths and weaknesses of each of the core functions administered by the Investment Unit; and
- 3) develop recommendations to increase operational efficiency and effectiveness.

The scope of our review assessed the organizational structure and operations of the Investment Unit within the Treasury Division and included a high-level examination of investment activities including policies, utilization of investment instruments, sales of securities, and performance. We did not conduct a comprehensive cost-benefit analysis stemming from potential staffing increases, but provided key information on this issue. Also, we did not conduct a comprehensive market research and analysis to determine the potential yield to the City if it took a more active investment strategy as this was beyond the scope of our review. We did, however, compare the City's investment performance to other cities that engage in other types of low-risk investments, such as commercial paper.

To accomplish our evaluation objectives, we implemented the following tasks:

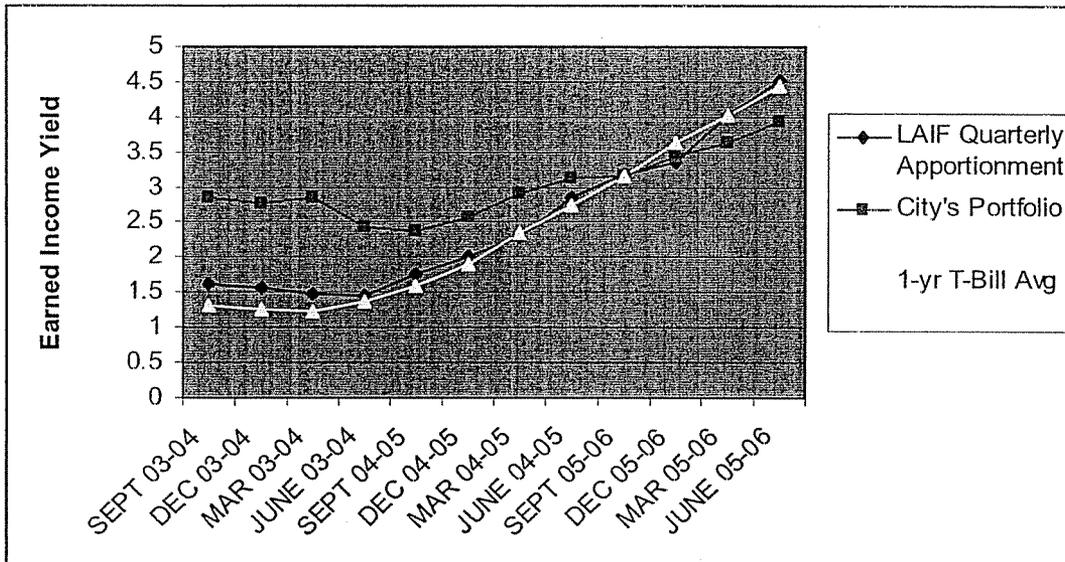
- interviewed staff;
- reviewed FY 2003-04 through FY 2005-06 monthly and quarterly investment reports to analyze the City's portfolio performance;
- reviewed City and department policies and procedures related to investment activities;
- reviewed and assessed compliance with State Government Code related to investment of public funds;
- reviewed other California Cities' – Anaheim, Oakland, San Diego, and San Francisco – investment performance;
- evaluated management tools and processes, including a review of internal controls;
- evaluated the adequacy of operations;
- compared Investment Unit position descriptions to actual job functions, and to comparable position descriptions in other California cities that performed investment operations;
- assessed investment objectives;
- reviewed key processes of investment activities for the City's Investment Pool and compared them with policies,
- reviewed purchases and sales of securities, and assessed performance (non-bond funds which are included in the cities' investment pool)

Excluded from our scope was a review of trustees/fiscal agents holding bond funds and pension funds' investments. However, we did conduct a high-level review of the debt management activities to better understand how information flows through the Investment Unit.

one city we identified that established specific targets to achieve, such as exceeding the LAIF by 50 basis points, or .5 percent<sup>2</sup>.

We evaluated the performance of the City's portfolio as shown in Figure 2.0, and assessed the change in performance over time. As shown in Figure 2.0, the effective yield on the City's portfolio increased between FY 2003-04 until March FY 2005-06. Additionally, the City's portfolio performance exceeded the one-year moving average yield of the one-year T-Bill and the LAIF between FY 2003-04 and FY 2004-05 until September 2005. After the yield curve became inverted (December 2005), the City's effective yield fell below the one year moving average of the T-Bill and then fell below the yield on the LAIF in March 2006. This means that short-term securities moved higher than long-term securities. This key indicator of market conditions is discussed later.

**Figure 2.0: Performance of City's Earned Interest Yield against Benchmarks of 1-Yr T-Bill and LAIF**



<sup>2</sup> A basis point is a unit of measure used in the financial world to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form. In most cases, it refers to changes in interest rates and bond yields.

curve became inverted in late 2005 through early 2006, short-term investments were gaining higher yields<sup>3</sup>, therefore a lower average days to maturity was a more advantageous position. As a result, cities with shorter “average days of maturity” when the yield curve became inverted were likely to gain a higher yield.

We found that the “buy and hold” strategy may pose a disadvantage to the City because it is not able to realize gains when market conditions change, such as when the yield curve becomes inverted, which was the market’s current condition at the time of our review. As a result, it may have been advantageous to have sold investments prior to their maturity, depending on market conditions. We note that although a “buy and hold” strategy can result in unrealized gains or losses as market interest rates fall or rise from the coupon rate of the investment, a more active investing strategy that attempts to profit from short-term price fluctuations could cause actual principle loss rather than unrealized losses.

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<sup>3</sup> The Yield Curve (yields of US Treasury bill, notes and bonds) show how interest rates can vary from short-term financial contracts to the longest of long-term bonds, like the 30-year US Treasury bond. The “usual” or “normal” shape of the yield curve is positive; that is, with short term rates lower than long term. A steeply positive curve points to future higher rates. When short-term rates move higher than long-term rates, the curve is considered inverted,

**Recommendation 1:** The Director of Finance should consider eliminating the benchmark of six month rolling average of the one-year T-Bill because historically, the City's portfolio has had an "average days to maturity" greater than 180 days.

**Recommendation 2:** The Director of Finance should consider selecting specific targets to meet or exceed existing benchmarks, such as .25 or .5 basis points greater than the quarterly return on LAIF or one-year moving average on one-year T-Bill.

### **Finding 3: San Jose's Portfolio is Concentrated in the Safest Instruments**

There are a variety of investment instruments available to the City of San Jose to develop a diversified portfolio. These investment instruments include up to 12 types of investments that meet the City of San Jose's investment policies and state government code. Our review determined that in the past fiscal year, the City's portfolio used seven of the 12 investment instruments available in FY 2005-06. These seven instruments included Bankers Acceptances, Commercial Paper, LAIF, U.S. Treasury Issues, U.S. Government Agency Securities, Time Deposits, and Repurchase Agreements. As of the quarter ended June 30, 2006, a large percentage of the City's portfolio, 88.6 percent, was invested in one type of investment instruments – U.S. Government Agency Securities. The remaining 11.4 percent is allocated among four other instruments comprising the City's portfolio. Based on the California Government Code, the City can allocate up to 100 percent of its investments in U.S. Government Treasury Securities and the LAIF because of their low-risk status. For Bankers Acceptances and Commercial Paper instruments, the City could invest up to 40 and 25 percent respectively, but San Jose's Policy allows only 25 and 20 percent maximum concentration in those instruments, respectively, as shown in Figure 5.0.

Finally, we noted that the City of San Jose appears to have greater controls built around investment instruments like Repurchase Agreements (repos) and Reverse Repurchase agreements, and Securities Lending than other cities whose policies we reviewed. The City of San Jose requires the prior written approval of the City Manager to enter into a reverse repurchase agreement, and once executed, the Investment Unit must report on the executed agreement to the City Manager again.

**Figure 6.0: Peer Cities Portfolio Mix Comparison**

Investment Instrument	Sample of Cities' Portfolio Mixes – June 30, 2006					San Jose
	ANAHEIM	SAN FRANCISCO	SAN DIEGO	OAKLAND	SACRAMENTO <sup>4</sup>	SAN JOSE
Bankers Acceptances	0%	0%	0%	0%	0%	0.20%
Commercial Paper	.93%	22.4%	0%	14.27%	16.58%	4.70%
LAIF	1.77%	0%	1.56%	8.39%	2.69%	3.20%
US Treasury Issues	48.1%	38.09%	25.76	0%	25.3%	3.30%
US Government Agency Securities	43.8%	11.9%	58.68	64.75%	46.24%	88.60%
Medium Term Corporate Notes	3.25%	0	5.07%	.94%	6.6%	0%
Negotiable Certificates of Deposits	0%	17.51%	0	06%	0%	0.00%
Time Deposits	0%	.14%	0	0%	0%	0.00%
Repurchase Agreements	0%	0	0	0%	0%	0.00%
Reverse Repos	0%	0	0	0%	0%	0.00%
Money Mkt Mutual Funds	2.12%	0	8.93%	11.59%	0%	0.00%

The City's Investment Policy allows for the occasional restructuring of its portfolio to minimize the loss of market value or maximize cash flows, subject to favorable conditions. Additionally, the current City policy states restructuring of the portfolio, or a change in the composition of the portfolio to improve performance due to changing market conditions, such as changes in the shape of the yield curve, is permissible as long as cash flows are adequate and it does not impair the diversification constraints of the portfolio. We found, however, that the portfolio had not been restructured during the

<sup>4</sup> Sacramento had .057% in cash/cash equivalents and 2.02% in variable rate securities.

administering the Executive Home Loan program and providing contract oversight. The Financial Analyst position has also assumed additional responsibilities over investment

activities that were originally carried out by the Administrative Officer. But, because the Administrative Officer spends a considerable amount of time on cash management activities, the investment duties have gradually transitioned to the Financial Analyst position. These additional duties require the Financial Analyst to perform at a higher level and take on greater responsibility than what is prescribed by the City’s Financial Analyst position description. Figure 7.0 below shows our sample of peer cities and their positions that perform investment duties.

**Figure 7.0: Comparison of Investment Office Organizational Structure among Peer Cities**

San Jose	Anaheim	Oakland	Sacramento	San Diego	San Francisco
Director of Finance	Treasurer	Treasury Manager	Treasurer	CEO	Treasurer
Deputy Director of Finance	Treasury Analyst	Principal Financial Analysts (2)	Assistant Treasurer	Treasurer	Assistant Treasurer
Administrative Officer	Principal Accountant	Treasury Analyst	Chief Investment Officer	Investment Officer	Chief Investment Officer
Financial Analyst	Accountants	Accountant I & I Revenue Assistant	Investment Operations Manager Senior Investment Officer Two additional Investment Officers	Staff (3)	
			Various Treasury Analysts		

Our evaluation of the roles and responsibilities of the Senior Account Clerk found that the position was similar to job duties described within the Units’ High Level Department Policies. However, variances exist between the actual job functions related to responsibility levels and the City’s position description for the Senior Account Clerk. Additionally, the Senior Account Clerk description, although vague, lists typical duties of senior clerical accounting, however the current duties of the Investment Unit require a higher level of responsibility, such as communicating with banks and brokerage firms as well as maintaining investment records.

Figure 8.0: Options Available for Staffing Structure: FY 2007-08 through FY 2009-10

Structure/Fiscal Year	FY 2007-08	FY 2008-09	FY 2009-10
Reporting	Deputy Director of Finance	Deputy Director of Finance	Deputy Director of Finance
Investment Unit Management	Recruit for Investment Officer	Hire Investment Officer	Investment Officer
Unit Staffing	-Financial Analyst -Sr. Acct. Clerk -Acct Clerk II -Clerical	-Investment Manager -Financial Analyst -Sr. Acct. Clerk -Clerical	-Investment Manager -Financial Analyst -Sr. Acct. Clerk
Personnel Changes	Administrative Officer retired	Recruit for Investment Manager	Assess workloads, job functions, consider technology changes; re-evaluate and restructure as necessary.

**Finding 5: Updating of Investment Unit Operations Could Position the City Well if it Chooses to Diversify its Portfolio**

While the work processes and other functions administered by the Investment Unit are generally adequate to maintain the current level of investment activity administered by the City, opportunities exist to enhance the efficiency and effectiveness of the Unit.

Our observations and surveys showed the presence and practice for separation of transaction authority from accounting and recordkeeping. However, further safeguards over recordkeeping are needed for investment activities, such as automating the preparation of investment control logs. The maintenance of Daily Investment Control Logs could be integrated electronically to ease additional manual data re-entry. These sheets contain daily transaction information, such as identifying the person responsible for approving and executing investment transactions as well as the amount and type of investment transaction. Each transaction requires a manual hand-written data entry process already reported elsewhere and is already maintained in separate electronic files used for the Daily Investment Packets. The volume of transactions recorded and tracked by the Investment Unit is about 40 “buy” orders per month. Staff occupies most of their time preparing and maintaining investment records because of the cumbersome and manually intensive processes in place.

While staff perform redundant duties to maintain the City’s investment records in both the financial system and the investment system, the effectiveness of their efforts are hindered by existing system incompatibilities. Currently, staff are posting entries into FMS, the City’s Financial Management System, for City investment maturities and

**Recommendation 10:** To assist with cash flow projections and streamlining the bank reconciliation process, the Director of Finance should examine the feasibility and cost effectiveness of a web-based cash management system that can provide real-time information reporting via the Internet. In the City's evaluation, it will be important to have a system that includes an automated interface with the City's FMS system.

**Recommendation 11:** The Administrative Officer or Financial Analyst should automate the integration of transaction data to simplify Investment Transaction reporting. The daily transaction sheets for the Daily Investment Control Logs could be automatically generated by tying two routine daily reports by macros in an Excel spreadsheet.

### **Finding 6: Investment Reporting Could be Revamped to Increase Value**

As per City's Investment Policy, the Investment Unit must report on its investment activities. The Investment Unit prepares four types of investment reports for review by the Deputy Director of Finance and the Director of Finance that provide information on the City's investment transactions. Daily packets prepared consist of a transmittal form, Summary of Investment Activity, Issuer Report, Exception Report, Investment Inventory and Daily Transaction Report that variously summarize maturities, interest, purchases, LAIF, and money market transactions. The Deputy Director of Finance (Treasury) approves the daily packets that are then distributed to the other Deputy Directors of Finance (Treasury and Accounting) for review. While the various internal reports are mandated by department policy, the City's "buy and hold" strategy lessens the concern over short-term price movements and makes daily reporting unnecessary. Other internal reporting activities include the preparation of weekly transaction reports, though not a stated requirement per the Unit's procedures. The reports show earnings and balances for review by the Director of Finance. All four staff members within the Investment Unit prepare and assemble all Unit reports.

In addition to internal reporting on investment transactions, the Investment Unit performs robust external reporting that exceeds the types of reports issued by other peer cities. Monthly and quarterly investment reports are primarily compiled by the Unit's Financial Analyst and both reports are reviewed by the Deputy Director of Finance and submitted to the Director of Finance. After authorization by the Director of Finance and City Manager, copies are distributed by email to the City Manager, the City Auditor and the City Council. These comprehensive reports are prepared monthly by the Unit's Financial Analyst and/or Administrative Officer. The reports provide information on portfolio composition, term to maturity, performance comparisons, weighted average yields on maturities and purchases, cash management projections for the next six months, exceptions and corrections on reported income. At the time of our review, Quarterly reports were presented to the Making Government Work Better Council Committee, but are now presented to the Public Safety, Finance and Strategic Support Committee for discussion and are then presented through that Committee to City Council Meetings on consent.

**Liquidity:** Explain why liquidity is important and the current cash flow needs of the City, and why it's an objective for the reporting period – to meet day-to-day expenditures, payroll, vendors, etc. and the amount that is needed at all times for unforeseen expenditures. Show a small chart of investments maturing over the next 6 to 12 months and the dollar amounts and the percentage of the entire portfolio. Additionally, another chart could be added to show the total portfolio by dollars invested and the percentage in each maturity range to show the amounts of the portfolio that are to mature in what time period. This is more easily understood to a cold reader rather than average days to maturity.

**Yield:** The average earned interest yield is a benchmark that needs to be presented against performance measures in a simple way. The performance measures need to be explained as to why they were selected as performance measures. Then analysis is needed to explain the City's performance in relation to the performance measures so that current investment strategies can be evaluated. Additionally, we found that the related yield graph needs to be augmented.

**Recommendation 14:** To improve the Average Yield Trend Comparison Chart, the Director of Finance should:

- Reduce number of lines to existing benchmark yields only. Reduce to a maximum of three trend lines for comparison.
- Label each yield line on the graph with yield percentages for the reporting period.
- Add a paragraph of performance analysis explaining the City's yield, what economic conditions caused the trends, and explain comparison of the benchmarks to the City's yield, and why the City did or did not meet the benchmarks.

**Recommendation 15:** The Director of Finance should consider presenting an annual "Investment Year in Review" to the Council (not on consent) describing activities of the Investment Unit, explaining compliance with State Government Code and City policies, the interest rate environment, key performance measures and analysis as previously mentioned, and list of accomplishments such as amount of the total portfolio balance maintained, increased income from various investment instruments in comparison to prior years, whether or not portfolio performance met or exceeded benchmark returns, and finally, by how much General Fund interest earnings exceed projections. Additionally, the City Auditor should be invited to review the investment program on an annual basis.

## CONCLUSIONS

In spite of the flexibility the current investment policy offers, the strategy of “buy and hold” has been the mainstay, and more active investing activities have not been necessary or implemented. This has shaped the organizational structure of the Investment Unit, which is not well positioned organizationally or strategically to implement other investment activities. If the City wishes to be pro-active in implementing its current investment policy, changes are needed for this to occur. These changes include, at a minimum, dedicating staff to conduct market research on potential investments, help negotiate transactions, monitor portfolio activities and measure/analyze performance and help develop and recommend strategies for maximum investment returns. Because investment activities can be high risk without proper management, oversight and controls, the City must cautiously and strategically update the Investment Unit organizational structure if it desires to become active in its investment activities under the current investment policy. A restructuring plan can accomplish transitioning from the current structure to the new structure and help set up an operating environment where work processes and the controls are established to protect the City from unnecessary risk.

Updating the structure of the Investment Unit in a phased approach will provide better organization development to expand investment activities to more fully implement the City’s policies; especially if the unit takes on a more active investment approach in the future. Furthermore, it will help accomplish the City goal of career development of its workforce and promote employee retention of exceptional staff.

City Position	Treasury/Investment Activities Performed Key Roles & Responsibilities		MCG Analysis	
	Current Responsibilities	Current City Position Description	Assess Scope of Responsibilities/Level of Workload/Difference with Position Description	Recommendations to (a) change position description (b) how workload/position should be restructured
		<p>matters relating to budget accounting, personnel issues and other administrative functions;</p> <ul style="list-style-type: none"> <li>• Provides complex reports to management, special analyses, planning, and special studies on which management bases major decisions</li> <li>• Negotiates and administers contracts, agreements and leases with vendors, agencies and contractors.</li> <li>• Performs outreach and public relations.</li> <li>• Ensures that the administrative function supervised is in compliance with federal and state laws, rules and regulations and local codes and standards. Implements changes to processes required by changes in legislation</li> <li>• Supervises subordinate supervisory and other staff to include: prioritizing and assigning work; conducting performance evaluations; ensuring staff is trained; and, making hiring, termination, and disciplinary recommendations.</li> </ul>		<p>analyses of money markets and issuers of corporate debt instruments.</p> <ul style="list-style-type: none"> <li>• Negotiates purchases, sales, and exchanges of marketable securities; oversees and administers cash flow analyses and other financial transactions; directs and/or prepares complex financial, statistical, and narrative reports, correspondence, and other documents.</li> <li>• Assigns, monitors, evaluates, and provides professional and technical guidance to staff engaged in the City's banking operations function, including the receipt, disbursement and safekeeping of City monies and investments including affirmation and reconciliation of investment trading and income activity, asset allocation activities, and allocation of investment income.</li> <li>• Provide financial analysis, advice and support to the Director of Finance and Deputy Director of Finance; manages and/or performs special investment-related projects. Work closely with brokers and consultants regarding investment activities and strategies; helps develop and recommend strategies for maximum investment returns.</li> </ul>

City Position	Treasury/Investment Activities Performed Key Roles & Responsibilities		MCG Analysis	
	Current Responsibilities	Current City Position Description	Assess Scope of Responsibilities/Level of Workload/Difference with Position Description	Recommendations to (a) change position description (b) how workload/position should be restructured
	<p>with banks, securities dealers and vendors.</p> <ul style="list-style-type: none"> <li>Administer City's Executive Home Loan Program.</li> <li>Gather and analyze data, and prepare reports and memos.</li> <li>Assist Administrative Officer with projects.</li> <li>Back-up for initiating /confirming with banks to process funds transfers.</li> </ul>	<ul style="list-style-type: none"> <li>Reviews regular, periodic account statements and other reports to ensure an appropriate account management and adherence to legal requirements and conformance with City policy.</li> <li>Prepares complex financial reports and analyses as part of the City's production and presentation of financial reports.</li> <li>Prepares complex financial, fiscal, and budget forecasts.</li> <li>Conducts cost studies; performs analysis of information and allocation of charges.</li> <li>Supervises professional staff responsible for financial management functions</li> </ul>		
Senior Account Clerk	<p>Daily Activities:</p> <ul style="list-style-type: none"> <li>Supervise the Investment Unit's Account Clerk (until December 2006)</li> <li>Reconcile daily City banking and investment activity to verify accuracy of bank postings. Resolve errors.</li> <li>Reconcile the custodian bank's projected investment income report to the APS2 daily projection report.</li> <li>Instruct custodian bank (via</li> </ul>	<p>None specific to Investment activities.</p> <ul style="list-style-type: none"> <li>Reviews, posts and balances ledgers and other documents; processes and reviews revenues; reviews and balances petty cash and/or change funds.</li> <li>Conducts and maintains inventories of stores, equipment and supplies.</li> <li>Compiles and processes payments and/or requisitions for various financial</li> </ul>	<ul style="list-style-type: none"> <li>Workload has been very heavy, although a few of the cash management related activities are being transitioned to the Cash Management side.</li> <li>Position description is too vague to accurately describe responsibilities. Discrepancies exist between duties listed in the description and actual job functions.</li> </ul>	<p>(a) A supplemental position description – describing responsibilities specific to investment or cash management activities, this is needed because the City position description is too vague. (b) Workloads to be reallocated as processes become automated and unit restructured.</p>

City Position	Treasury/Investment Activities Performed Key Roles & Responsibilities		MCG Analysis	
	Current Responsibilities	Current City Position Description	Assess Scope of Responsibilities/Level of Workload/Difference with Position Description	Recommendations to (a) change position description (b) how workload/position should be restructured
	<p>disbursement/ACH/wire reports. Download daily banking activity for deposit control.</p> <ul style="list-style-type: none"> <li>• Reconcile daily recap of revenue turn-ins and prepare daily cash reports, FMS report, and cash flow-related reports. Includes processing cash collection “add-ons” at the end of each month.</li> <li>• Maintain City’s records for FMS Cash Collection batches and revenue vouchers processed by cashiers.</li> <li>• Maintain desk procedures for APS2 operations manual with current and complete information.</li> <li>• Back-up:                             <ul style="list-style-type: none"> <li>⇒ To Investment Account Clerk II: Post to APS2 for City investments/produce reports as scheduled or needed; produce cash flow related reports as needed.</li> <li>⇒ To Financial Analyst: Reconcile daily Redevelopment Agency banking and investment activity to verify accuracy of bank postings. Resolve errors.                                     <ul style="list-style-type: none"> <li>• Assist in researching items for General Ledger.</li> <li>•</li> </ul> </li> </ul> </li> </ul>			

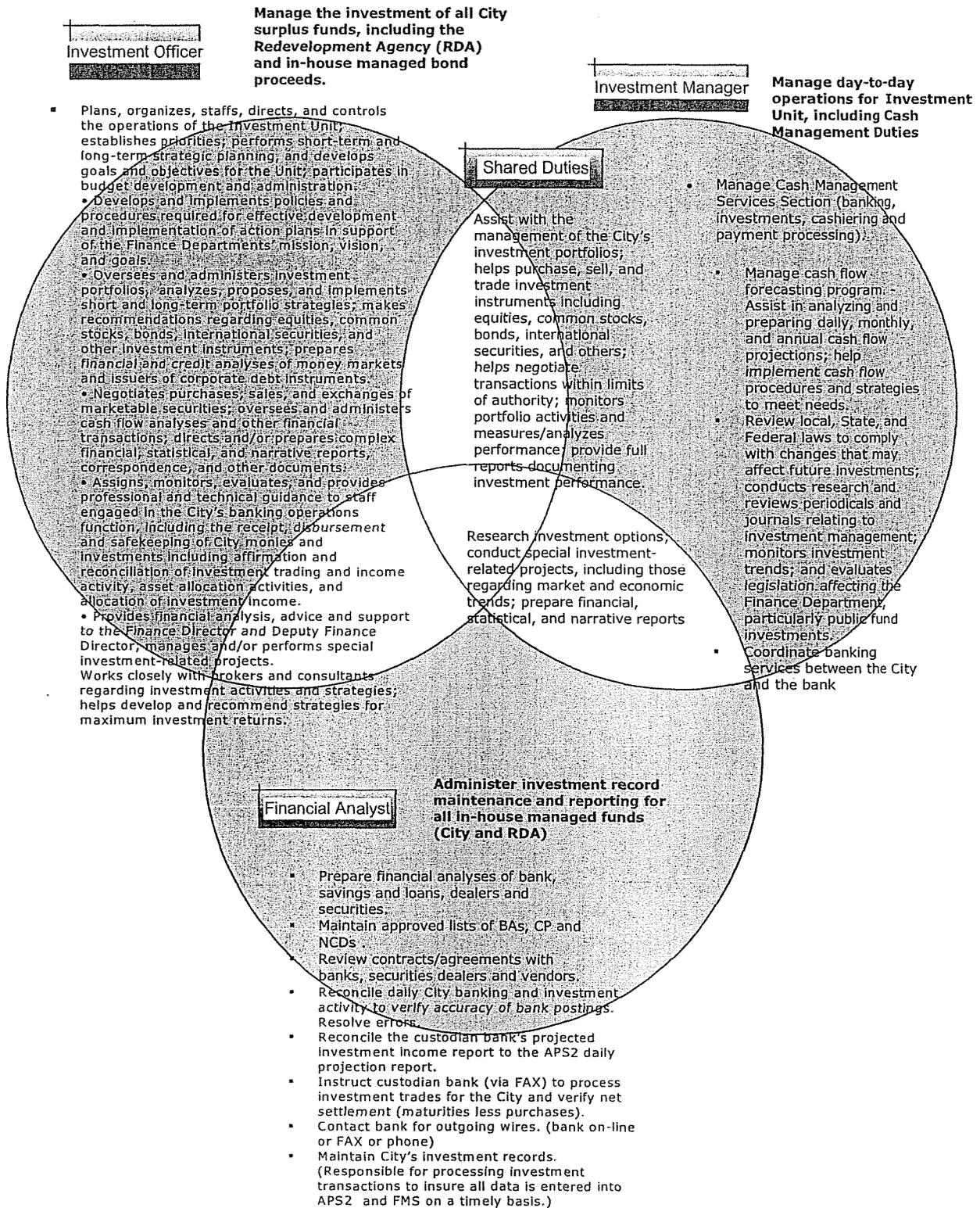
City Position	Treasury/Investment Activities Performed Key Roles & Responsibilities		MCG Analysis	
	Current Responsibilities	Current City Position Description	Assess Scope of Responsibilities/Level of Workload/Difference with Position Description	Recommendations to (a) change position description, (b) how workload/position should be restructured
	<p>disbursement/ACH/wire reports. Download daily banking activity for deposit control.</p> <ul style="list-style-type: none"> <li>• Reconcile daily recap of revenue turn-ins and prepare daily cash reports, FMS report, and cash flow-related reports. Includes processing cash collection “add-ons” at the end of each month.</li> <li>• Maintain City’s records for FMS Cash Collection batches and revenue vouchers processed by cashiers.</li> <li>• Maintain desk procedures for APS2 operations manual with current and complete information.</li> <li>• Back-up:</li> </ul> <p>⇒ To Investment Account Clerk II: Post to APS2 for City investments/produce reports as scheduled or needed; produce cash flow related reports as needed.</p> <p>⇒ To Financial Analyst: Reconcile daily Redevelopment Agency banking and investment activity to verify accuracy of bank postings. Resolve errors.</p> <ul style="list-style-type: none"> <li>• Assist in researching items for General Ledger.</li> <li>•</li> </ul>			

City Position	Treasury/Investment Activities Performed Key Roles & Responsibilities		MCG Analysis	
	Current Responsibilities	Current City Position Description	Assess Scope of Responsibilities/Level of Workload/Difference with Position Description	Recommendations to (a) change position description (b) how workload/position should be restructured
	<p>investment maturities and interest, LAIF withdrawals, and transfers to the City's bank account from the Redevelopment Agency's bank account.</p> <p>⇒ Reconcile daily recap of revenue turn-ins and prepare daily cash reports, FMS report, and cash flow-related reports.</p> <p>⇒ Instruct banks (via bank on-line or FAX) to process investment trades for the City.</p> <ul style="list-style-type: none"> <li>• Back-up to Office Specialist:</li> </ul> <p>⇒ Prepare summary of weekly AP check register listing (checks over \$30,000)</p> <p>⇒ Process confirmations for signature.</p>			
Office Specialist II	<p>Daily Activities:</p> <ul style="list-style-type: none"> <li>• Process for signature and mailing/distribution: Investment Confirmations, Local Agency Investment Fund forms and Report of Cash Activity forms.</li> <li>• Maintain filing for the investment and banking records</li> <li>• Prepare summary of weekly AP check register listing (checks over \$30,000)</li> <li>• Sort and distribute Finance Department incoming mail.</li> <li>• Provide support as needed for the Treasury Division</li> </ul>	<p>None specific to Investment activities.</p> <p>General functions include:</p> <ul style="list-style-type: none"> <li>• Provides customer service, including acting as a receptionist; refers individuals to the appropriate staff member, gives out a variety of information and written materials; helps the public fill out standard forms, responds to complaints by providing information or ensuring that individuals are properly referred to someone who can assist them.</li> <li>• Answers telephone calls, takes messages, and refers telephone calls to appropriate person; answers questions and provides a variety of</li> </ul>	<p>Scope of responsibility – as a back-up to Account Clerk II – is appropriate because she is typically involved in investment transaction activities and is aware of current practices. However, as a clerical position, it is inappropriate to be involved with some higher level investment activities.</p>	<p>(a) A clerical classification may not be an appropriate back-up for the staff performing Investment duties, but no change is recommended until the succession plan is implemented.</p> <p>(b) After succession plan is implemented, this position would no longer be a back-up for investment duties.</p>

City Position	Treasury/Investment Activities Performed Key Roles & Responsibilities		MCG Analysis	
	Current Responsibilities	Current City Position Description	Assess Scope of Responsibilities/Level of Workload/Difference with Position Description	Recommendations to (a) change position description (b) how workload/position should be restructured
		<ul style="list-style-type: none"> <li>Operates a variety of standard office equipment including but not limited to computers, telephones, computer terminals, duplicating machines, fax machines, and calculators.</li> <li>Opens, sorts, and distributes mail. Orders, maintains and issues supplies May receive cash payments and make change; prove and balance cash receipts. May assist in the training of less experienced workers</li> </ul>		

\* Details obtained from City Job description, supplemental documentation on job functions within the Investment Unit and staff interviews.

## Appendix 3: Venn Diagram Describing Investment Unit Position Responsibilities and Duties





## Memorandum

**TO:** Public Safety, Finance and Strategic  
Support Committee

**FROM:** Gerald A. Silva,  
City Auditor

Rules and Open Government  
Committee

**SUBJECT:** *RESPONSE TO THE MACIAS  
CONSULTING GROUP'S REPORT  
ON THE FINANCE DEPARTMENT'S  
INVESTMENT UNIT AND THE  
FINANCE DEPARTMENT'S  
RESPONSE*

**DATE:** May 10, 2007

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The Finance Department provided the City Auditor's Office with a copy of the Macias Consulting Group's report on the City's Investment Unit, the Finance Department's response, and the proposed changes to the City's Investment Policy. We have read through these documents and would like to respond to two relevant issues.

First, the City Auditor's Office has not participated in the Macias Consulting Group's report writing or issuance nor have we provided any assistance or coordination in the Finance Department's response to the previously mentioned report.

Secondly, we take exception to the following statements:

***[Consultant] Recommendation 15:*** .... *Additionally, the City Auditor should be invited to review the investment program on an annual basis.*

***[Finance Director] City Response:*** .... *In its report on the annual review of the City Investment Policy, staff is recommending amending the Policy to invite the City Auditor to review the investment program for compliance with the Policy at least semi-annually.*

The City Auditor's Office is currently conducting an audit of the City's Debt Management Group. Our Office's work plan includes a performance audit of the City's Investment Unit which we plan to begin upon completion of the Debt Management audit (we expect to begin August 2007). At the Finance Department's request, we postponed our audit of the Investment Unit until they initiated and completed an external review. We have reviewed the Macias Consulting Group report and still believe we should go forth with our own audit.

I recommend that the Rules Committee not add any permanent, ongoing *compliance* audits of the City's investments to the City Auditor's Work Plan until we have had the opportunity to assess the need for these audits ourselves. Once we have completed our *performance* audit of the Investment Unit, we can address the need for establishing a biannual review of the Investment Program or any other changes needed in the investment policy.

A handwritten signature in cursive script, reading "Gerald A. Silva". The signature is written in black ink and is positioned above a horizontal line.

Gerald A. Silva  
City Auditor

0641M  
GS:lg