



## FINANCE AND AUDIT COMMITTEE MEETING

550 E. 6th Street, Beaumont, CA

Monday, November 09, 2020 - 6:00 PM

---

Materials related to an item on this agenda submitted to the Finance and Audit Committee after distribution of the agenda packets are available for public inspection in the City Clerk's office at 550 E. 6th Street during normal business hours

---

### AGENDA

#### REGULAR SESSION

6:00 PM

#### MEETING PARTICIPATION NOTICE

This meeting will be conducted utilizing teleconference communications and will be recorded for live streaming as well as open to public attendance subject to social distancing and applicable health orders. All City of Beaumont public meetings will be available via live streaming and made available on the City's official YouTube webpage. Please use the following link during the meeting for live stream access.

#### **BeaumontCa.gov/Livestream**

Public comments will be accepted using the following options.

1. Written comments will be accepted via email and will be read aloud during the corresponding item of the meeting. Public comments shall not exceed three (3) minutes unless otherwise authorized by City Council. Comments can be submitted anytime prior to the meeting as well as during the meeting up until the end of the corresponding item. Please submit your comments to: **[NicoleW@BeaumontCA.gov](mailto:NicoleW@BeaumontCA.gov)**
2. Phone-in comments will be accepted by joining a conference line prior to the corresponding item of the meeting. Public comments shall not exceed three (3) minutes unless otherwise authorized by City Council. Please use the following phone number to join the call:  
**(951) 922 - 4845**
3. In person comments subject to the adherence of the applicable health orders and social distancing requirements.

In compliance with the American Disabilities Act, if you require special assistance to participate in this meeting, please contact the City Clerk's office using the above email or call **(951) 572 - 3196**. Notification 48 hours prior to a meeting will ensure the best reasonable accommodation arrangements.

## **CALL TO ORDER**

Committee Members: Council Member Martinez, Council Member Carroll, Chair Baron Ginnetti, Vice Chair Richard Bennecke, Member Billiath Bengesa, Member Steve Cooley, Member Frank Parks, *Business/Resident Member vacant and Alternate Member vacant*

Action of any requests for Excused Absence:

Pledge of Allegiance:

Approval/Adjustments to Agenda:

Conflict of Interest Disclosure:

## **PUBLIC COMMENT PERIOD (ITEMS NOT ON THE AGENDA):**

*Any one person may address the Committee on any matter not on this agenda. If you wish to speak, please fill out a "Public Comment Form" provided at the back table and give it to the Committee Chair or Secretary. There is a three (3) minute limit on public comments. There will be no sharing or passing of time to another person. State Law prohibits the Committee from discussing or taking actions brought up by your comments.*

## **ACTION ITEMS / PUBLIC HEARINGS / REQUESTS**

### **1. Approval of Minutes**

#### **Recommended Action:**

Approve Minutes dated September 14, 2020.

### **2. FY 2021 General Fund and Wastewater Fund Budget to Actual through September 2020**

#### **Recommended Action:**

Receive and file the attached reports.

### **3. Committee for the Selection of Investment Advisor Services**

#### **Recommended Action:**

Staff is requesting the Finance Committee identify two or three members to join City staff in an RFP Committee to begin the process of engaging investment advisor services.

## **SUB-COMMITTEE UPDATES**

## **FUTURE AGENDA ITEMS**

## **MEETING REVIEW - TREASURER**

## **FINANCE DIRECTOR'S COMMENTS**

## **ADJOURNMENT**

The next regular meeting of the Finance and Audit Committee Meeting is scheduled for Monday, December 14, 2020, at 6:00 p.m.

Beaumont City Hall – Online [www.BeaumontCa.gov](http://www.BeaumontCa.gov)

# FINANCE AND AUDIT COMMITTEE MEETING

550 E. 6th Street, Beaumont, CA

Monday, September 14, 2020 - 6:00 PM

## MINUTES

---

### REGULAR SESSION

6:00 PM

#### CALL TO ORDER at 6:00 p.m.

**Present:** Committee Members: Council Member Martinez, Council Member Carroll, Chair Baron Ginnetti, Vice Chair Richard Bennecke, Member Steve Cooley, Member Frank Parks, *Business/Resident Member vacant and Alternate Member vacant*

**Absent:** Member Billiath Bengesa

Action of any requests for Excused Absence: **Member Billiath Bengesa**

Pledge of Allegiance

Approval/Adjustments to Agenda: **None**

Conflict of Interest Disclosure: **None**

#### PUBLIC COMMENT PERIOD (ITEMS NOT ON THE AGENDA):

No speakers.

#### ACTION ITEMS / PUBLIC HEARINGS / REQUESTS

1. Approval of Minutes

**Motion by Member Cooley**

**Second by Council Member Carroll**

**To approve Minutes dated July 13, 2020.**

**Approved by a 6-0 vote.**

2. Review of Proposed Investment Policy

**Motion by Member Bennecke**

**Second by Member Cooley**

**To recommend approval by the City Council or provide modifications for consideration by the City Council prior to approval.**

**Approved by a 6-0 vote.**

3. FY 2020 General Fund and Wastewater Fund Budget to Actual through June 2020

**Motion by Vice Chair Bennecke**

**Second by Member Cooley**

**To review and file these financial reports.**

**Approved by a 6-0 vote.**

**SUB-COMMITTEE UPDATES**

No updates.

**FUTURE AGENDA ITEMS**

**MEETING REVIEW - TREASURER**

**FINANCE DIRECTOR'S COMMENTS**

Gave a brief update of current tasks within the Finance Department.

**ADJOURNMENT at 7:20 p.m.**



## Staff Report

**TO:** Finance Committee  
**FROM:** Jeff Mohlenkamp, Finance Director  
**DATE:** November 9, 2020  
**SUBJECT:** **FY 2021 General Fund and Wastewater Fund Budget to Actual through September 2020**

---

### **Background and Analysis:**

Staff has updated the analysis of the General Fund and Wastewater Fund for FY 2020-21 with results through September 2020.

This early analysis of the budget to actual results for FY 2021 is included in the attached spreadsheets.

### **Recommended Action:**

Receive and file the attached reports.

### **Attachments:**

- A. FY 2021 General Fund Budget to Actual Report – through September 2020
- B. FY 2021 Wastewater Fund Budget to Actual Report – through September 2020



# Budget Comparison Report

## FY 2021 General Fund Budget to Actual through Sept 2020

SubCategory	2018-2019 YTD Activity Through Per	2019-2020 YTD Activity Through Per	2020-2021 YTD Activity Through Per	FY 2021 Budget	NOTES
<b>Fund: 100 - GENERAL FUND</b>					
<b>Revenue</b>					
<b>Category: 40 - TAXES</b>					
400 - Real Property Taxes	\$ 221,334	\$ 72,127	\$ 59,338	\$ 5,874,605	Most property tax is collected in December and May/June
403 - Personal Property Taxes	\$ -	\$ -	\$ 11,526	\$ 267,137	
406 - Franchise Fees	\$ -	\$ 6,050,000	\$ 1,050,000	\$ 2,969,846	Two of four quarterly solid waste payments received/ FY 2020 included a \$5 million one-time receipt
409 - Sales Taxes	\$ 445,057	\$ 522,824	\$ 543,640	\$ 4,025,048	
420 - Other Taxes	\$ 282,325	\$ 276,937	\$ 302,026	\$ 7,083,745	Reflects one month of sales tax received
<b>Total Category: 40 - TAXES:</b>	<b>\$ 948,715</b>	<b>\$ 6,921,889</b>	<b>\$ 1,966,529</b>	<b>\$ 20,220,381</b>	
<b>Category: 41 - LICENSES</b>					
430 - Business Licenses	\$ 60,467	\$ 112,986	\$ 183,053	\$ 225,000	
<b>Total Category: 41 - LICENSES:</b>	<b>\$ 60,467</b>	<b>\$ 112,986</b>	<b>\$ 183,053</b>	<b>\$ 225,000</b>	
<b>Category: 42 - PERMITS</b>					
450 - Building Permits	\$ 1,172,116	\$ 481,383	\$ 316,623	\$ 2,200,000	
453 - Inspections	\$ 134,672	\$ 43,880	\$ 57,925	\$ 210,000	
456 - Other Permits	\$ 215,113	\$ 141,898	\$ 95,123	\$ 417,500	
515 - Public Works	\$ 52	\$ -	\$ -	\$ -	
<b>Total Category: 42 - PERMITS:</b>	<b>\$ 1,521,953</b>	<b>\$ 667,161</b>	<b>\$ 469,671</b>	<b>\$ 2,827,500</b>	
<b>Category: 45 - INTERGOVERNMENTAL</b>					
465 - State	\$ 11,730	\$ -	\$ -	\$ -	
470 - Local	\$ -	\$ -	\$ -	\$ -	
<b>Total Category: 45 - INTERGOVERNMENTAL:</b>	<b>\$ 11,730</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Category: 47 - CHARGES FOR SERVICE</b>					
500 - Sanitation	\$ 1,529,092	\$ 112,615	\$ -	\$ -	Solid waste outsourced beginning in FY 2019/ residual revenues in FY 2020, but no revenues from this source in FY 2021
505 - Animal Control	\$ 17,511	\$ 17,953	\$ 17,174	\$ 119,450	
510 - Community Development	\$ 1,180	\$ 1,376	\$ 1,066	\$ 5,500	
515 - Public Works	\$ 4,868	\$ 837	\$ 39,412	\$ 7,900	
525 - Abatements	\$ 1,732	\$ 1,250	\$ 2,299	\$ 54,500	
530 - Public Safety	\$ 3,335	\$ 34,719	\$ (19,283)	\$ 537,850	Revenues from this source not yet posted
535 - Facilities	\$ 34,364	\$ 34,294	\$ 25,392	\$ 125,000	
540 - Programs	\$ 44,130	\$ 39,652	\$ -	\$ 20,000	
545 - Other	\$ 32,573	\$ 14,016	\$ 3,826	\$ 148,200	
<b>Total Category: 47 - CHARGES FOR SERVICE:</b>	<b>\$ 1,668,786</b>	<b>\$ 256,711</b>	<b>\$ 69,888</b>	<b>\$ 1,018,400</b>	
<b>Category: 50 - FINES AND FORFEITURES</b>					
555 - Vehicle	\$ 7,859	\$ 12,200	\$ 6,357	\$ 70,000	
557 - Other	\$ 118	\$ 5,553	\$ 4,781	\$ 45,000	
<b>Total Category: 50 - FINES AND FORFEITURES:</b>	<b>\$ 7,976</b>	<b>\$ 17,752</b>	<b>\$ 11,139</b>	<b>\$ 115,000</b>	

<b>Category: 53 - COST RECOVERY</b>					
465 - State	\$ 1,545	\$ 4,077	\$ -	\$ 25,000	
565 - Other Income	\$ 85,576	\$ (10,001)	\$ 144,722	\$ 334,000	
<b>Total Category: 53 - COST RECOVERY:</b>	<b>\$ 87,121</b>	<b>\$ (5,924)</b>	<b>\$ 144,722</b>	<b>\$ 359,000</b>	
<b>Total Category: 54 - MISCELLANEOUS REVENUES:</b>					
	<b>\$ 4,205</b>	<b>\$ (28,052)</b>	<b>\$ 52,445</b>	<b>\$ 339,500</b>	
<b>Category: 90 - TRANSFERS</b>					
	<b>\$ (510,108)</b>	<b>\$ 580,656</b>	<b>\$ -</b>	<b>\$ 8,549,581</b>	No transfers recorded to date/ transfers are expected to be close to budgeted target
<b>Total Revenue:</b>					
	<b>\$ 3,800,846</b>	<b>\$ 8,523,179</b>	<b>\$ 2,897,447</b>	<b>\$ 33,654,362</b>	
<b>Expense</b>					
<b>Category: 60 - PERSONNEL SERVICES</b>					
600 - SALARIES AND WAGES	\$ 2,639,006	\$ 2,633,115	\$ 2,647,664	\$ 12,819,643	Tracking under budget
610 - BENEFITS	\$ 1,425,418	\$ 2,230,331	\$ 2,143,609	\$ 5,984,148	PERS liability paid in lump sum during July for the entire fiscal year
615 - OTHER	\$ 117,864	\$ 194,730	\$ 147,253	\$ 474,406	
<b>Total Category: 60 - PERSONNEL SERVICES:</b>	<b>\$ 4,182,288</b>	<b>\$ 5,058,176</b>	<b>\$ 4,938,526</b>	<b>\$ 19,278,197</b>	
<b>Category: 65 - OPERATING COSTS</b>					
650 - UTILITIES	\$ 374,052	\$ 405,655	\$ 424,637	\$ 1,548,533	
655 - ADMINISTRATIVE	\$ 75,952	\$ 93,116	\$ 93,603	\$ 354,623	
660 - FLEET COSTS	\$ 64,443	\$ 76,174	\$ 57,124	\$ 369,669	
665 - PROGRAM COSTS	\$ 327,025	\$ 349,534	\$ 88,770	\$ 741,619	
670 - REPAIRS AND MAINTENANCE	\$ 81,634	\$ 53,479	\$ 107,160	\$ 820,510	
675 - SUPPLIES	\$ 59,008	\$ 45,281	\$ 40,998	\$ 541,570	
680 - SPECIAL SERVICES	\$ 1,613,943	\$ 140,167	\$ 9,595	\$ 501,000	
690 - CONTRACTUAL SERVICES	\$ 942,660	\$ 697,875	\$ 621,612	\$ 7,325,058	
697 - ADMIN OVERHEAD	\$ (178,000)	\$ (187,500)	\$ -	\$ -	Overhead now part of transfers/ in revenues
699 - OTHER	\$ 886,662	\$ 1,126,864	\$ 1,465,376	\$ 1,538,766	
<b>Total Category: 65 - OPERATING COSTS:</b>	<b>\$ 4,247,378</b>	<b>\$ 2,800,646</b>	<b>\$ 2,908,875</b>	<b>\$ 13,741,348</b>	
<b>Category: 70 - CAPITAL IMPROVEMENTS</b>					
700 - EQUIPMENT	\$ 141,139	\$ 11,181	\$ 27,148	\$ 180,000	
703 - FURNITURE	\$ -	\$ 379	\$ -	\$ -	
705 - VEHICLE	\$ 19,449	\$ 107,947	\$ 51,299	\$ 273,816	
710 - STRUCTURE	\$ -	\$ -	\$ -	\$ -	
<b>Total Category: 70 - CAPITAL IMPROVEMENTS:</b>	<b>\$ 160,588</b>	<b>\$ 119,507</b>	<b>\$ 78,448</b>	<b>\$ 453,816</b>	
<b>Category: 77 - CONTINGENCY</b>					
770 - CONTINGENCY	\$ -	\$ -	\$ -	\$ 150,001	
<b>Total Category: 77 - CONTINGENCY:</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 150,001</b>	
<b>Category: 90 - TRANSFERS</b>					
900 - Transfers	\$ -	\$ -	\$ -	\$ 31,000	
<b>Total Category: 90 - TRANSFERS:</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,000</b>	
<b>Total Expense:</b>					
	<b>\$ 8,590,254</b>	<b>\$ 7,978,328</b>	<b>\$ 6,930,567</b>	<b>\$ 33,654,362</b>	Expenses tracking below budget through first quarter of operations
<b>Total Fund: 100 - GENERAL FUND:</b>					
	<b>\$ (4,789,408)</b>	<b>\$ 544,851</b>	<b>\$ (4,019,788)</b>	<b>\$ -</b>	

**Overall Analysis** The City is 3 months into FY 2021 and is tracking well with both revenues and expenditures. Tax revenues are likely to exceed the budget and expenditures are tracking under budget. Expenses remain below budget in part due to cost savings measures deployed in the final quarter of FY 2020 but which remain in effect. Tax revenues and business license are likely to exceed the budget by a significant amount while development revenues are lagging below budgeted targets.





Beaumont, CA

## Budget Comparison Report

### FY 2021 Wastewater Fund Budget to Actual through September 2020

#### Notes

SubCategory	2018-2019 YTD Activity Through Per	2019-2020 YTD Activity Through Per	2020-2021 YTD Activity Through Per	FY 2021 Budget	
<b>nd: 700 - WASTEWATER FUND</b>					
<b>Revenue</b>					
<b>Category: 50 - FINES AND FORFEITURES</b>					
557 - Other	\$ -	\$ -	\$ -	\$ -	
<b>Total Category: 50 - FINES AND FORFEITURES:</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Category: 53 - COST RECOVERY</b>					
565 - Other Income	\$ -	\$ 6,236	\$ -	\$ 6,300	
<b>Total Category: 53 - COST RECOVERY:</b>	<b>\$ -</b>	<b>\$ 6,236</b>	<b>\$ -</b>	<b>\$ 6,300</b>	
<b>Category: 54 - MISCELLANEOUS REVENUES</b>					
560 - Investment Earnings	\$ -	\$ 16,119	\$ -	\$ 37,500	Investment earnings have not yet been posted to this account.
<b>Total Category: 54 - MISCELLANEOUS REVENUES:</b>	<b>\$ -</b>	<b>\$ 16,119</b>	<b>\$ -</b>	<b>\$ 37,500</b>	
<b>Category: 56 - PROPRIETARY REVENUES</b>					
570 - WasteWater	\$ 1,460,899	\$ 1,629,073	\$ 1,346,138	\$ 10,849,000	One of 6 bi-monthly billings recorded/ offset by prior year refunds due to account closures
<b>Total Category: 56 - PROPRIETARY REVENUES:</b>	<b>\$ 1,460,899</b>	<b>\$ 1,629,073</b>	<b>\$ 1,346,138</b>	<b>\$ 10,849,000</b>	
<b>Category: 58 - OTHER FINANCING SOURCES</b>					
595 - Sale of Assets	\$ -	\$ -	\$ -	\$ -	
599 - Other	\$ -	\$ -	\$ -	\$ -	
<b>Total Category: 58 - OTHER FINANCING SOURCES:</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Category: 90 - TRANSFERS</b>					
900 - Transfers	\$ -	\$ -	\$ -	\$ -	
<b>Total Category: 90 - TRANSFERS:</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Revenue:</b>	<b>\$ 1,460,899</b>	<b>\$ 1,651,428</b>	<b>\$ 1,346,138</b>	<b>\$ 10,892,800</b>	
<b>Expense</b>					
<b>Category: 60 - PERSONNEL SERVICES</b>					
600 - SALARIES AND WAGES	\$ 93,202	\$ 261,973	\$ 184,778	\$ 1,200,535	Tracking below budget
610 - BENEFITS	\$ 39,484	\$ 127,930	\$ 98,389	\$ 446,844	
615 - OTHER	\$ 2,119	\$ 4,570	\$ 2,896	\$ 15,974	PERS liability paid in July for the entire year/ otherwise tracking below budget
<b>Total Category: 60 - PERSONNEL SERVICES:</b>	<b>\$ 134,805</b>	<b>\$ 394,472</b>	<b>\$ 286,063</b>	<b>\$ 1,663,353</b>	
<b>Category: 65 - OPERATING COSTS</b>					
650 - UTILITIES	\$ 252,863	\$ 233,313	\$ 243,567	\$ 827,821	
655 - ADMINISTRATIVE	\$ 41,726	\$ 31,915	\$ 39,818	\$ 291,216	
660 - FLEET COSTS	\$ 891	\$ 4,696	\$ 3,838	\$ 31,980	
670 - REPAIRS AND MAINTENANCE	\$ 1,083	\$ 2,195	\$ 6,537	\$ 60,695	
675 - SUPPLIES	\$ 35,739	\$ 52,232	\$ 67,752	\$ 379,610	
690 - CONTRACTUAL SERVICES	\$ 248,192	\$ 127,461	\$ 77,282	\$ 1,062,563	
697 - ADMIN OVERHEAD	\$ 153,000	\$ 162,500	\$ -	\$ -	
699 - OTHER	\$ 584	\$ 43,452	\$ 8,594	\$ 480,137	
<b>Total Category: 65 - OPERATING COSTS:</b>	<b>\$ 734,079</b>	<b>\$ 657,764</b>	<b>\$ 447,387</b>	<b>\$ 3,134,022</b>	Operating expenses are tracking well below budget/ they are expected to increase during the second quarter of the fiscal year
<b>Category: 70 - CAPITAL IMPROVEMENTS</b>					
700 - EQUIPMENT	\$ -	\$ -	\$ -	\$ 153,638	
750 - OTHER	\$ -	\$ -	\$ -	\$ 300,000	
<b>Total Category: 70 - CAPITAL IMPROVEMENTS:</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 453,638</b>	
<b>Category: 90 - TRANSFERS</b>					
900 - Transfers (including Debt Service)	\$ -	\$ 2,967,753	\$ 3,171,844	\$ 5,641,787	Semi-annual debt service payment on Sept 1st includes both principal and interest
<b>Total Category: 90 - TRANSFERS:</b>	<b>\$ -</b>	<b>\$ 2,967,753</b>	<b>\$ 3,171,844</b>	<b>\$ 5,641,787</b>	
<b>Total Expense:</b>	<b>\$ 868,884</b>	<b>\$ 4,019,989</b>	<b>\$ 3,905,294</b>	<b>\$ 10,892,800</b>	
<b>Total Fund: 700 - WASTEWATER FUND:</b>	<b>\$ 592,015</b>	<b>\$ (2,368,561)</b>	<b>\$ (2,559,155)</b>	<b>\$ -</b>	

**Overall Analysis** Revenues are slightly lower than budget due to prior year refunds. Expenses are tracking well below budget, however the pace of expenditures is expected to increase during the second quarter. Debt service for the first half of the year including the annual principal portion has been paid.



## Staff Report

**TO:** Finance and Audit Committee Members  
**FROM:** Jeff Mohlenkamp, Finance Director  
Jennifer Ustation, Senior Accountant  
**DATE** November 9, 2020  
**SUBJECT: Committee for the Selection of Investment Advisor Services**

---

### Background and Analysis:

On September 15, 2020, City Council took action to adopt a revised Investment Policy. The policy approved by the City Council provides for securing one or more investment advisors to assist the City with the implementation of its investment strategy. It is also critical to ensure all investments are in compliance with the adopted policy.

City staff believes that engaging an investment advisor would provide many benefits to the City's Investment portfolio by providing professional advice on investment selection and assisting the City in the goals of the investment policy which are safety of principal, liquidity, and obtaining a market rate of return.

As discussed at both the Finance Committee and City Council meetings, City staff intends to issue a Request for Proposal (RFP) to secure services of an investment advisor(s). The next step is to form an RFP committee to complete the next steps in this selection process. The committee will follow Government Finance Officers Association (GFOA) best practices in investment advisor selection and in the RFP process.

The proposed steps in securing investment advisor services are as follows:

1. Identification of RFP Committee members (this is the request at tonight's meeting),
2. Committee to review RFP parameters,
3. City Staff to issue the RFP and receive submittals,
4. RFP Committee to review the submittals and identify one or more investment advisors for consideration by the Finance Committee, and

5. Finance Committee consider recommendations by the RFP Committee and make recommendation to the City Council.

**Recommended Action:**

Staff is requesting the Finance Committee identify two or three members to join City staff in an RFP Committee to begin the process of engaging investment advisor services.

**Attachments:**

- A. GFOA Best Practices with Selecting an Investment Advisor

## GOVERNMENT FINANCE OFFICERS ASSOCIATION BEST PRACTICES

Many governments engage investment advisers for assistance in managing their non-pension fund investment portfolios. State and local government treasury and investment managers augment their investment programs by retaining investment advisers to perform various portfolio services, ranging from advice-only consultation to full discretionary management. In engaging an investment adviser, a government may benefit from professional portfolio management, risk management, potential audit savings, and continuity in the investment function, among other benefits. Most of these engagements have been positive. However, there have been some instances of inappropriate investment activities. The problems and reported losses have often resulted from governments hiring an adviser before they have clearly defined their needs, performed sufficient due diligence, and established proper controls and ongoing oversight.

It is important for governments to take a careful and informed approach in the selection and use of investment advisers. When hiring an investment adviser, the government must determine the level of authority to grant the adviser. Advisory services will differ in the level of authority the government grants the adviser and the corresponding level of involvement the government retains in the investment process.

Under a **non-discretionary** agreement, the adviser must obtain approval before executing any trade. All activity must comply with the guidelines of a government's investment policy, investment objectives, governing laws, and written or oral instructions. With a non-discretionary agreement the government is directly involved in investment transactions, whether to establish a comfort level with external management or the adviser, to learn from the adviser, or for some other reason.

Under a **discretionary** agreement, the adviser can execute trades for the government without prior approval on each transaction. The adviser follows the same guidelines and restrictions as a non-discretionary adviser. With a discretionary agreement the government is less involved in the investment transactions, thus enabling staff resources to be directed to other duties, giving the adviser the ability to execute investment strategies more quickly, and allowing the government to hold the adviser totally responsible for the performance in the portfolio.

Under either agreement type, the government maintains control of its investment program by establishing the guidelines and policies to which the adviser must adhere.

GFOA recommends that state and local governments exercise caution and prudence in their selection of investment advisers. Because fiduciary responsibility for the safety and liquidity of government funds cannot be delegated to an investment adviser, the

implementation of a safe and effective investment program must be carefully coordinated with the adviser.

The GFOA urges state and local governments that are considering retaining an investment adviser to define and control the procurement process and assure periodic reviews of investment advisory services. Adhering to defined due diligence in selecting a qualified investment adviser and establishing proper controls will help a government achieve its objectives for hiring an adviser while protecting its funds and reducing risk to its reputation.

Within the scope of Securities and Exchange Commission (SEC) regulations, state and local laws, and any other requirements, relationships with investment advisers should address the following:

- **Identification of adviser responsibilities.** Responsibilities of the investment adviser should be identified before the selection process. During the process these should be clearly defined and communicated.
- **Impartial procurement.** The responsible government official or the governing board should appoint a consultant and/or internal review committee to conduct the search process. Such staff, consultant, and/or review committee members should be independent of any interest in or relationship with any investment advisory firm. The procurement process should be competitive and merit-based.
- **On-going review.** Investment advisory services should be reviewed on an on-going basis. The on-going review, monitoring and evaluation of the investment adviser are as important as the due diligence undertaken during the initial selection process. The responsible government official or the governing board and/or review committee should determine the scope and frequency of such review process.

**Criteria** - The responsible government official or the governing board and/or review committee should determine the criteria to be used in the selection process. Identifying relevant criteria upfront promotes transparency in the selection process. Assigning weightings to these criteria can create a workable method to rank or quantify the importance of each. Criteria should include:

- the investment adviser's understanding of the government's investment program, objectives and constraints
- the investment adviser's background, including the experience, resources, and qualifications of the firm in general, that of the individuals assigned to handle the government's account, and the firm's experience in managing state and local government operating funds
- the investment adviser's recommended approach to management of the portfolio: Is this approach appropriate for the government?
- fees and fee basis

**Risk Control** - As part of the procurement process and prior to a final decision on the investment adviser, the government entity should have made decisions regarding its risk tolerance and developed corresponding risk control requirements, including:

- the level of discretion afforded the investment adviser
- prohibitions against self-dealing for trade execution
- competitive trade execution
- trade confirmations
- delivery versus payment trade settlement
- independent third-party custody of securities (no investment adviser custody)
- timely reconciliations of trade confirmations and custodial statements
- monthly reporting that complies with industry standards and local requirements
- ongoing compliance reviews
- allowance for independent audits

**Selection Process** - Once the government defines the services it seeks to obtain and the criteria it will use to make its selection, a Request for Proposal (RFP) is useful to gather information for the decision-making process.

Information that might be part of the RFP include:

- SEC licenses
- quantitative information (e.g., financial stability and performance review)
- organizational structure of firm including any business affiliations
- experience and depth of personnel in firm, including turnover and single versus team management
- reporting standards (Global Investment Performance Standards or GIPS)
- firm-specific investment philosophy and portfolio management strategies
- trading process
- interviews with finalists
- understanding of current or historic regulatory censure or litigation

The sources for potential candidates may include:

- references from other governments
- consultants' database(s) on investment advisory firms
- association databases
- industry reports and articles
- marketing materials

Final decisions will require an objective compilation and analysis of the results of the RFP. Most importantly, the investment adviser and the services offered must match the needs of the particular government entity.

**Advisory Agreement** - A well-constructed agreement containing specific instructions concerning objectives and risk parameters, allowable investment instruments and strategies, and required reporting procedures is critical to a successful outcome. After a recommendation regarding the selection of an investment adviser has been made, the contractual agreement should include:

- scope of services
- appointment of the investment adviser and fiduciary responsibilities
- establishment of account responsibilities
- definition of accounts and custody
- definition of discretionary or non-discretionary services with appropriate limitations
- definition of standards (Prudent Expert)
- establishment of objectives, restrictions and benchmarks
- definition and processing of transaction procedures in accordance with policy including brokerage limitations
- representations by entity and investment adviser
- determination of reasonable liability insurance for errors and omissions
- establishment of invoicing and payment
- procedure for termination by either party
- specifications related to nondiscrimination in contracting and ethics rules
- certification of the government's policy by the investment adviser
- all provisions of the RFP as part of the contract