Written materials relating to an item on this agenda that are distributed to the legislative bodies within 72 hours before the item is to be considered at its regularly scheduled meeting will be made available for public inspection at the City Clerk's Office, 300 West Third Street 4th Floor during customary business hours. Agenda reports are also on the City of Oxnard web site at www.oxnard.org.

CITY OF OXNARD CALIFORNIA

AGENDA
OXNARD CITY COUNCIL
FINANCE AND GOVERNANCE COMMITTEE
Council Chambers, 305 West Third Street
July 14, 2020
Regular Meeting - 9:30 to 10:45 AM

This meeting is held pursuant to the State Emergency Services Act, the Governor's Emergency Declaration, and Governor's Executive Order N-29-20 to allow members of the City Council or staff to participate via teleconference.

Pursuant to the Ventura County Public Health Official's order and Governor's Executive Order N-33-20, all city buildings are temporarily closed to the public. The public is encouraged to view the meeting from home on the City's website at Oxnard.org/city-meetings, Spectrum channel 10, Frontier channel 35, or YouTube at Youtube.com/oxnardnews. Video recordings are typically available online immediately following the meeting.

The public may provide comments to the City Council via email at cityclerk@oxnard.org no later than 8:00 a.m. on the day of the meeting. Please identify the committee name, meeting date, and agenda item in the email Subject line.

A telephone option for public comments is also available at this time due to the State of California "Stay At Home" order. Requests to speak must be submitted no later than 8:00 a.m. on the day of the meeting. Use the form on the city's website to submit your request: Oxnard.org/city-meetings, or call the City Clerk's Office at (805) 385-7803, or email your request to cityclerk@oxnard.org.

A. ROLL CALL, POSTING OF AGENDA, FLAG SALUTE

B. PUBLIC COMMENTS ON ITEMS NOT ON THE AGENDA

At this time, the legislative body will consider public comments for a maximum of fifteen minutes. A person may address the legislative body only on matters not appearing on the agenda and within the subject matter jurisdiction of the legislative body. Speaker requests shall be submitted as set forth on the first page of this agenda. Based on the number of speaker requests submitted, the presiding officer may impose time limits per speaker. Typically, speakers are limited to two minutes, but shorter time may be established as deemed necessary. The legislative body cannot enter into a detailed discussion or take action on any items presented during public comments at this time. Such items may only be referred to the City Manager for administrative action or scheduled on a subsequent agenda for discussion.

C. CONSENT AGENDA

1. City Clerk Department

   SUBJECT: Approval of Minutes.

   RECOMMENDATION: That the Finance and Governance Committee approve the minutes of the June 23, 2020 regular meeting as presented.

   Contact: Michelle Ascencion, (805) 385-7805

In compliance with the Americans with Disabilities Act, if you require special assistance to participate in a meeting, please contact the City Clerk's Office at 385-7803. Notice at least 72 hours prior to the meeting will enable the City to reasonably arrange for your accessibility to the meeting.

Agenda Item time estimates: (Staff Presentation / Committee Discussion / Public Comment)

D. REPORTS

1. Finance Department

SUBJECT: Presentation of Internal Control - Integrated Framework. (20/20/10)

RECOMMENDATION: That the Finance and Governance Committee receive a presentation on the Internal Control – Integrated Framework (ICIF), provide feedback on such framework and associated proposed policies, and give authorization for staff to present the item to City Council to adopt the following four framework implementing policies and approve the ICIF:
1) FPOL 1.01 Adoption of Internal Control – Integrated Framework
2) FPOL 1.02 Adoption of Internal Control Oversight Responsibilities
3) FPOL 1.03 Internal Control - Finance and Governance Committee Duties and Responsibilities
4) FPOL 1.04 Assignment of Authority and Responsibility for Achieving Operational, Reporting and Compliance Objectives
5) City of Oxnard, California Internal Control – Integrated Framework.

Contact: Kevin Riper, (805) 385-7475

2. Information Technology Department

SUBJECT: Response to Grand Jury Report, "Cybersecurity Strategies for Cities in Ventura County." (5/5/5)

RECOMMENDATION: That the Finance and Governance Committee recommend the City Council authorizes the Mayor, the City Manager, and the Chief Information Officer to respond on behalf of the City Council, to the Grand Jury Report titled "Cybersecurity Strategies for Cities in Ventura County" dated May 21, 2020, in the form included as the attachment titled "Response To Grand Jury Report Form."

Contact: Keith Brooks, (805) 385-7597

3. City Manager Department

SUBJECT: Annual Delegation of Investment Authority and Investment Policy. (5/5/5)

RECOMMENDATION: That the Finance and Governance Committee recommend the City Council adopt a resolution:
1. Delegating investment authority to the City Treasurer; and
2. Adopting the FY 2020-21 investment policy for the City.

Contact: Alexander Nguyen, (805) 385-7430

E. ITEMS FOR FUTURE AGENDAS

F. ADJOURNMENT

M I N U T E S
OXNARD CITY COUNCIL
FINANCE AND GOVERNANCE COMMITTEE
Regular Meeting
June 23, 2020

A. ROLL CALL, POSTING OF AGENDA, FLAG SALUTE

At 9:32 a.m., Member Lopez (serving as Acting Chair), called to order the regular meeting of the Oxnard City Council Finance and Governance Committee in the City Hall Council Chambers at 305 W. Third Street, Oxnard, California. The City Clerk called the roll and announced the posting of the agenda. Members Vianey Lopez and Bert E. Perello were present via videoconference; Chair Tim Flynn was absent (arrived at 10:12 a.m.).

Staff members present were Shiri Klima, Deputy City Manager; Stephen M. Fischer, City Attorney; Jay Duncan, Public Works Call Center Manager; Eden Alomeri, Assistant City Treasurer; and Michelle Ascencion, City Clerk.

B. PUBLIC COMMENTS ON ITEMS NOT ON THE AGENDA (None received.)

C. CONSENT AGENDA

City Clerk Department

1. SUBJECT: Approval of Minutes.
   RECOMMENDATION: That the Finance and Governance Committee approve the minutes of the May 26, 2020 regular meeting as presented.

It was moved by Member Perello, seconded by Member Lopez, to approve the minutes as presented. VOTE: Lopez and Perello voted in favor; the motion carried 2-0.

D. REPORTS

City Manager Department

1. SUBJECT: City of Oxnard Internal Audit Department Whistleblower Summary Update.
   RECOMMENDATION: That the Finance and Governance Committee receive and file the Internal Auditor Update on Whistleblower Matters.

Henry Oum of Price Paige & Company gave a report. Discussion ensued among the Committee, staff, and Mr. Oum. No action was required.

Public Works Department

2. SUBJECT: Utility Rate Assistance Program ("Project Assist") Update.
   RECOMMENDATION: That the Finance and Governance Committee recommend that the City Council:
   1. Adopt a Resolution for the Ratepayers Assistance Program ("Project Assist" – Year 4)

in Fiscal Year 2020-21 for utility bills to assist Oxnard low-income residents and authorize staff to grant financial relief equal to a constant $15.00 credit for the monthly utility service charged to customers who meet the eligibility requirements discussed in this staff report; and
2. Authorize staff to direct up to $145,000 from penalty fees charged to current customers who pay their bills late to fund the Utility Rate Assistance Program in Fiscal Year 2020-21.

The Public Works Call Center Manager gave a report. Discussion ensued among the Committee and staff.

It was moved by Member Perello, seconded by Member Lopez, to forward the item for full Council consideration. VOTE: Lopez and Perello voted in favor; the motion carried 2-0.

City Manager Department

3. SUBJECT: Senior Utility Rate Assistance.
RECOMMENDATION: That the Finance and Governance Committee recommend that the City Council authorizes staff to distribute $13,200 collected from donations held in Fund 571 to assist low income seniors with utility payments.

The Assistant City Treasurer gave a report. (Chair Flynn arrived at this time.) Discussion ensued among the Committee and staff.

It was moved by Member Lopez, seconded by Member Perello, to approve the recommended action as presented. VOTE: Flynn, Lopez, and Perello voted in favor; the motion carried 3-0.

E. ITEMS FOR FUTURE AGENDAS

Chair Flynn recommended reviewing previous requests for future items. Member Perello requested an update on the financial status of the three city utilities.

F. ADJOURNMENT

There being no further business on the agenda, and without objection, Chair Flynn adjourned the meeting at 10:26 a.m.

MICHELLE ASCENCION, CMC
City Clerk

TIM FLYNN
Chair

CITY OF OXNARD CALIFORNIA

FINANCE AND GOVERNANCE COMMITTEE
AGENDA REPORT

REPORTS
AGENDA ITEM NO. D.1

DATE: July 14, 2020

TO: Finance & Governance Committee

FROM: Kevin Riper, Chief Financial Officer, (805) 385-7475, kevin.riper@oxnard.org

SUBJECT: Presentation of Internal Control - Integrated Framework. (20/20/10)

RECOMMENDATION

That the Finance and Governance Committee receive a presentation on the Internal Control – Integrated Framework (ICIF), provide feedback on such framework and associated proposed policies, and give authorization for staff to present the item to City Council to adopt the following four framework implementing policies and approve the ICIF:
1) FPOL 1.01 Adoption of Internal Control – Integrated Framework
2) FPOL 1.02 Adoption of Internal Control Oversight Responsibilities
3) FPOL 1.03 Internal Control - Finance and Governance Committee Duties and Responsibilities
4) FPOL 1.04 Assignment of Authority and Responsibility for Achieving Operational, Reporting and Compliance Objectives
5) City of Oxnard, California Internal Control – Integrated Framework.

BACKGROUND

Internal controls are the mechanisms, rules and procedures implemented by an organization to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud. Internal controls can also help improve operational efficiency by improving the accuracy and timeliness of financial reporting.

Over the past few years, the City began improving internal controls. In the early stages, the City Manager relied on audit findings and recommendations of auditors and consultants to begin developing controls such as the Corrective Action Plan in which the Finance Department reports back to the Finance and Governance Committee and City Council every six months.

In the fiscal year 2019-20 budget, the City Council approved a new position for the Finance Department – Senior Manager of Internal Controls – to focus primarily on helping the organization strengthen its internal controls and provide oversight and monitoring to ensure controls continue to operate as designed.

DISCUSSION

The audit findings in the Single Audit Report for fiscal year ending 2015 and subsequent reports highlighted the need for the City to adopt an Internal Control - Integrated Framework (ICIF) as a policy document and to develop the necessary internal controls that will help the City safeguard its assets and achieve its purpose of

serving the Oxnard community. The ICIF would take the internal control process one step further than what the City has done in the prior years by being more comprehensive.

In July 2018, the City Council was first introduced to the concept of implementing the ICIF standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO ICIF is the most widely implemented standard for effective internal control systems.

The ICIF recommends nine policies to be adopted, unless already implemented through other processes or controls. The City Council policies define the City Council's role with respect to internal controls. Staff will be presenting the recommended policies in stages utilizing the framework components that will be discussed in the presentation. The first four framework implementing policies are related to the control environment component of the framework. More specifically, the first four implementing policies recommended for Council consideration are:

- 1.01 The use of the recognized national and state internal control standards and practices, which include COSO's 17 internal control principles;

- 1.02 Council oversight responsibilities in the development and performance of internal control;

- 1.03 The Finance and Governance Committee serves as the audit committee in respect to internal controls; and

- 1.04 Delegation of authority to the City Manager and any elected officials with managerial responsibilities.

A fifth policy titled "Performance Evaluations of City Manager and City Attorney" is not needed because the City already has a process for conducting these evaluations, which is managed by the Human Resources Department.

The ICIF also includes sixteen Administrative Implementation Guidelines (Guidelines). These Guidelines are to assist the City Manager in developing and deploying control activities throughout the organization. For example, Guideline 6 is regarding financial management and operations training, and Guideline 7 is regarding succession and turnover contingency planning. The Guidelines do not need to be adopted by City Council but rather are Guidelines that the City Manager will adopt and implement at the administrative level.

Adoption of City Council policies and the ICIF is only the first step. For them to be effective, the City will need to commit time, skills, technology, and appropriate financial resources. Accountability for implementation will be required. The lack of sufficient resources allocated to internal control resulted in the many problems identified over the years by third-party experts and the City's own staff, Council and residents. Additionally, management is accountable for developing and/or maintaining the necessary internal controls for the City's most significant business systems and processes. The combination of these factors will allow the City to build on and strengthen a culture that strives to provide the level of services desired by the community while protecting City resources.

More detailed control documentation will be completed over the course of the next year to address remaining Single Audit findings and other identified issues. Additionally, over the next two to three years, significant changes will affect the financial reporting environment of the City, especially the implementation of a new enterprise resource planning (ERP) system. Many controls that are currently performed manually and therefore subject to human error can be automated in the ERP system, which will further reduce the risk of errors in

financial reporting.

If the Committee recommends Council adopt the four framework implementing policies and approve the ICIF, staff will prepare a resolution of the Council adopting these policies, approving the ICIF, and modifying the Council Committee bylaws regarding the Finance and Governance Committee's delegated responsibilities accordingly.

STRATEGIC PRIORITIES

This agenda item supports the Organizational Effectiveness strategy. The purpose of the Organizational Effectiveness strategy is to strengthen and stabilize the organizational foundation of the City in the areas of Finance, Information Technology, and Human Resources, and to improve workforce quality while increasing transparency to the public. This item supports the following goals and objectives:

Goal 1. To help foster a healthy and accountable corporate foundation by strengthening the support functions of the organization, which include Finance, Information Technology and Human Resources.

Objective 1b. Establish an Internal Audit Program to complete performance audits of identified programs to ensure compliance with state and federal law and that Council policy is adhered to.

Objective 1c. Develop written procedures to address Internal Control recommendations from Auditor.

Objective 1d. Ensure adequate systems are established, reviewed, and updated within the Human Resources Department related to personnel policies and procedures, employee compensation, benefits, recruitments, testing and other human resources related systems.

FINANCIAL IMPACT

There is no financial impact at this time.

Prepared by: Christine Williams, Senior Manager, Internal Controls

ATTACHMENTS

1. FPOL 1.01 Adoption of Internal Control - Integrated Framework
2. FPOL 1.02 Adoption of Internal Control Oversight Responsibilities
3. FPOL 1.03 Internal Control - Finance Committee Duties and Responsibilities
4. FPOL 1.04 Assignment of Authority and Responsibility for Achieving Operational, Report and Compliance Objectives
5. City of Oxnard, Internal Control - Integrated Framework
6. Internal Control - Integrated Framework Presentation

City of Oxnard Finance Policy

TITLE			PAGE
Adoption of Internal Control – Integrated Framework			1 of 5
NUMBER	VERSION	DOCUMENT OWNER	EFFECTIVE DATE
FPOL 1.01	1.0	Christine Williams	9/1/2020
PROCEDURE OWNER	TITLE	(Signature)	DATE
Christine Williams	Sr. Mgr, Internal Controls		7/14/2020

1.0 POLICY STATEMENT

The City Council adopts the Internal Control – Integrated Framework (ICIF) and includes in this policy the 17 internal control principles of the Committee of Sponsoring Organizations (COSO). The use of recognized national and state internal control standards and practices shall be expected of all City officials.

The ICIF shall serve as the underpinning of all the City of Oxnard's internal control policies and implementation guidelines and activities. The City Manager is directed to use the ICIF and 17 COSO principles when creating policies and implementing internal controls whenever it is feasible, effective and efficient.

2.0 SCOPE

The policy covers all of the City of Oxnard's internal control activities as it relates to the development and implementation of internal controls. It applies to all City officials. The principles that follow have been adapted to the City of Oxnard environment.

3.0 BACKGROUND

3.1.1. The City of Oxnard needs an overarching and unifying framework for its internal controls. The California State Controller's Office (SCO) issued *Internal Control – Guidelines for Local Government Agencies* in 2015 to improve local governments' ability to reach their goals by maintaining strong internal controls. The Federal Office of Management and Budget (OMB), through its Uniform Guidance (2 CFR 200) required federal grantees to implement effective internal controls in the first fiscal year following the December 2014 effective date of the regulations. For the City of Oxnard this was the fiscal year ending June 30, 2016.

Other recognized sources for developing and maintaining the ICIF include the *Green Book* of United States Government Accountability Office (GAO), the Statements of Auditing Standards (SAS) of the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA), the California Committee on Municipal Accounting (CCMA), the Generally Accepted Government Auditing Standards (GAGAS, *Yellow Book*) of the GAO and best practices suggested by the Government Finance Officers Association (GFOA).

4.0 DEFINITIONS

Term	Definition
Internal Control – Integrated Framework (ICIF)	A system of internal controls designed to address three main categories of internal control objectives which are 1. Operations 2. Reporting and 3. Compliance.
Committee of Sponsoring Organizations (COSO)	A joint initiative of the five private sector organizations (American Accounting Association, American Institute of Certified Public Accountants, Financial Executives International, Institute of Management Accountants, and the Institute of Internal Auditors) and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.
California State Controller's Office (SCO)	Accountability and disbursement of the State of California's financial resources.
Federal Office of Management and Budget (OMB)	An agency of the federal government that evaluates, formulates, and coordinates management procedures and program objectives within and among departments and agencies of the Executive Branch.
Uniform Guidance (2 CFR 200)	An authoritative set of rules and requirements for Federal awards.
City Officials	Managers of the organization at all levels.

5.0 INTERNAL CONTROL OBJECTIVES

The ICIF provides for three categories of objectives, allowing City leaders to focus on different aspects of internal control. Objectives within each category are established by the City Manager to achieve City Council goals.

5.1.1 **Operations Objectives.** These pertain to effectiveness and efficiency of the City's operations including operational and financial performance goals and safeguarding assets against loss.

5.1.2 **Reporting Objectives.** These pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other objectives set forth by regulators, recognized standard-setters or City Council policies.

5.1.3 **Compliance Objectives**. These pertain to adherence to state and federal laws and regulations and to City Code provisions or City Council policies.

5.2 ICIF Components to Achieve Internal Control Objectives

The ICIF is based on five components that are intended to work together to provide reasonable assurance that the operational, reporting and compliance objectives may be achieved. The five components are:

5.2.1.1 Control Environment. Based on ethical conduct, competence and accountability, this is the foundation for an internal control system. It provides the support and structure to help the City achieve its objectives.

5.2.1.2 Risk Assessment. Identifies and analyzes the risks facing the City as it seeks to achieve its objectives. This assessment provides the basis for prioritizing and developing appropriate internal controls to eliminate or reduce risks.

5.2.1.3 Control Activities. This component represents the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the City's information systems.

5.2.1.4 Information and Communication. These are the processes that produce relevant, quality information that managers and staff use to support the internal control system.

5.2.1.5 Monitoring. These are the processes managers establish and operate to assess the execution and quality of internal control activities over time and to promptly resolve the findings of audits and other reviews.

6.0 INTERNAL CONTROL PRINCIPLES

There are 17 principles within the five components of the ICIF. The principles that follow have been adapted to the City of Oxnard environment. The term "City officials" refers to managers of the organization at all levels.

Components of Internal Control Systems	Principle
A. Control Environment	1. City officials demonstrate a commitment to integrity and ethical values.
	2. The City Council demonstrates independence from management and exercises oversight of the development and performance of internal control.
	3. City management establishes, with Council oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
	4. City officials demonstrate a commitment to attract, develop, and retain competent individuals in alignment with objectives.
	5. City officials hold individual(s) accountable for their internal control responsibilities in the pursuit of City of Oxnard objectives.
B. Risk Assessment	6. City officials specify objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
	7. City officials identify risks to the achievement of objectives across the entity and analyze risks as a basis for determining how the risks should be managed.
	8. City officials consider the potential for fraud in assessing risks in achieving objectives.
	9. City officials identify and assess changes that could significantly impact the systems of internal control.
C. Control Activities	10. City officials select and develop control activities that contribute to the mitigation of risks in achieving objectives to acceptable levels.
	11. City officials select and develop general control activities over technology to support the achievement of objectives.
	12. City officials deploy control activities through policies that establish what is expected and procedures that put policies in place.
D. Information and Communication	13. City officials obtain or generate and use relevant, quality information to support the functioning of internal control.
	14. City officials internally communicate information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
	15. City officials communicate with external parties regarding matters affecting the functioning of internal control.

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TITLE Adoption of Internal Control – Integrated Framework			PAGE 5 of 5
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E. Monitoring Activities	16. City officials select, develop, and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
	17. City officials evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including Senior Manager of Internal Controls, senior management, Finance and Governance Committee, and the City Council, as appropriate.

7.0 ROLES AND RESPONSBILITIES

Refer to FPOL 1.02 Adoption of Internal Control Oversight Responsibilities

8.0 RELATED CITY OF OXNARD REFERENCES

FPOL 1.02	Adoption of Internal Control Oversight Responsibilities
FPOL 1.03	Internal Control – Finance Committee Duties and Responsibilities
FPOL 1.04	Assignment of Authority and Responsibility for Achieving Operational, Reporting and Compliance Objectives

9.0 DOCUMENT HISTORY

Version	Summary of Changes	Reason for Changes
1.0	New policy	New policy

City of Oxnard Finance Policy

TITLE			PAGE
Adoption of Internal Control Oversight Responsibilities			1 of 2
NUMBER	VERSION	DOCUMENT OWNER	EFFECTIVE DATE
FPOL 1.02	1.0	Christine Williams	9/1/2020
PROCEDURE OWNER	TITLE	(Signature)	DATE
Christine Williams	Sr. Mgr, Internal Controls		7/14/2020

1.0 POLICY STATEMENT

The City Council shall identify and accept its oversight responsibilities in the development and performance of internal control. This includes the following:

a. Ensuring that City Council appointees have the skills, knowledge, and experience necessary for their job duties and responsibilities;
b. Applying objectivity in evaluating information and when making decisions;
c. Ensuring the completion of periodic risk assessments; and
d. Following up on completion of actions to address audit findings.

2.0 SCOPE

The policy applies to the City of Oxnard organization and benefits the City of Oxnard community by creating a control environment based on ethical practices, competency and compliance with laws, regulations and policies.

3.0 BACKGROUND

3.1.1. The City Council performs a critical oversight responsibility on behalf of the Oxnard community to provide a strong internal control framework and accurate financial reporting. The City Council does this by exercising its oversight duties and working with the City Manager, City Attorney and other officials to create a control environment based on ethical practices, competency and compliance with laws, regulations and policies.

4.0 DEFINITIONS

Term	Definition
Oversight	To exercise supervision/management/governance over the development and performance of internal control.
Objectivity	A person (or their judgment) not influenced by personal feelings or opinions in considering and representing facts.
Risk Assessment	A systematic process of evaluating the potential risks that may be involved in a projected activity or undertaking at all levels.

CITY OF OXNARD CALIFORNIA	**City of Oxnard Finance Policy**		
TITLE Adoption of Internal Control Oversight Responsibilities			PAGE 2 of 2
NUMBER FPOL 1.02	VERSION 1.0	DOCUMENT OWNER Christine Williams	EFFECTIVE DATE 9/1/2020

5.0 ROLES AND RESPONSIBILITIES

Role	Responsibility
City Council	Exercise its oversight duties, working with the City Manager, City Attorney and other officials, to create a control environment based on ethical practices, competency and compliance with laws, regulations and policies.

CITY OF OXNARD REFERENCES

FPOL 1.01 Adoption of Internal Control – Integrated Framework

6.0 DOCUMENT HISTORY

Version	Summary of Changes	Reason for Changes
1.0	New policy	New policy

City of Oxnard Finance Policy

TITLE			PAGE
Internal Control – Finance and Governance Committee Duties and Responsibilities			1 of 5
NUMBER	VERSION	DOCUMENT OWNER	EFFECTIVE DATE
FPOL 1.03	1.0	Christine Williams	9/1/2020
PROCEDURE OWNER	TITLE	(Signature)	DATE
Christine Williams	Sr. Mgr, Internal Controls		7/14/2020

1.0 POLICY STATEMENT

1.1.1 The City Council shall add audit committee responsibilities to the role of the Finance and Governance Committee (F&GC). *The F&GC was established through City Code Section 2-1.1 and Bylaws (See Resolution No. 15,286 for such delegation).* The City Council establishes the F&GC as a critical element in the City's internal control environment. The responsibilities will be consistent with best practices recommended for an audit committee by the Government Finance Officers Association (GFOA) Best Practice – Audit Committees. It is also consistent with the State Controller's Office's (SCO) recommendations in its publication *Internal Control Guidelines – California Local Agencies*.

1.1.2 The City Council will adequately fund the work of the F&GC, including the cost of the financial auditors and internal auditors who report to it and the experts it engages to fulfill its responsibilities, through adoption of appropriations in the budget resolution. The City Manager and City Attorney shall assign staff support to the F&GC.

1.1.3 Composition and Meetings. The F&GC shall be composed of three of the seven members from the City Council. GFOA recommends that members of the F&GC have a basic understanding of governmental financial reporting and auditing or be willing to attend training to obtain that understanding.

1.1.4 No elected or appointed official who exercises managerial responsibilities that fall within the scope of a financial audit or internal audit should serve as a member of the committee or as an advisor to the F&GC. Members of the F&GC have a duty to exercise an appropriate degree of professional skepticism in their interactions with financial auditors, internal auditors, other elected officials with assigned internal control or managerial responsibility and management.

1.1.5 The F&GC shall meet per City Code Section 2-1.1 and Bylaws (See Resolution No. 15,286 for such delegation) but may schedule additional meetings as necessary to fulfill its duties and responsibilities. The F&GC shall, at its discretion, have access to the

services of financial experts and appropriate specialists, if required, to assist in fulfilling responsibilities in its role as the audit committee of the City.

The financial expert(s) and appropriate specialists should, through education and experience relevant to the government sector, understand generally accepted accounting principles (GAAP) and financial statements, be experienced in preparing or auditing financial statements of a comparable agency, be experienced with applying such principles in connection with accounting for estimates, accruals and reserves, be experienced with internal controls, and understand audit committee functions.

Responsibilities. The F&GC shall be responsible for all of the following:

a. Advise the City Council and provide oversight for policies to implement or improve the City's internal controls and financial condition.

b. Review City Council appointees' performance related to implementing internal control activities.

c. Review instances where City staff has overridden internal controls in connection with significant or material matters.

d. Review non-routine, significant or material financial matters so it can advise the City Council on those matters. Non-routine matters include items not managed in the normal course of municipal operations or matters not covered by existing policies. In this policy, "significance" relates to the potential for the matter to threaten achievement of significant operating, reporting or compliance objectives with financial implications. "Materiality" relates to the size of the financial impact of the matter on the City.

e. Advise the City Council on new and modified financial management policies. Policies would include, but not be limited to, budgeting, capital improvement/construction in progress, revenues, fund balance, reserves, debt, accounting and risk management. It may also review, discuss and recommend changes to policies or City Code sections to modernize the City's administrative and regulatory framework to implement financial audit or internal audit findings or modernize and improve the City's financial condition, internal control framework and business processes.

f. Provide oversight of management's development of policies relating to maintaining a strong control environment and work with management to plan periodic risk assessments related to

achieving the Council's strategic goals and related operational, reporting and compliance objectives.

g. Review finance related City Council policies at least every five years.

h. Carry out Audit Committee responsibilities as follows:

1. Recommend to the full City Council the appointment, compensation, retention and oversight of any independent accountants engaged for the purpose of preparing or issuing independent financial audit or internal audit reports or performing other independent financial audit or internal audit review, agreed upon procedures or attest services for the City.

2. Ensure that all financial auditors and internal auditors engaged by the F&GC pursuant to this policy shall report directly to the Committee.

3. Receive a report from the City Manager (or internal auditor or City Manager's designee) about any employee complaints and their resolutions regarding accounting, internal accounting controls or financial auditing matters.

4. Discuss auditor reports and financial statements with the City Manager, Chief Financial Officer and others as the City Manager designates and, at its discretion, meet with the City's financial auditors and experts without management present to discuss reports and financial statements.

5. Have access to all reports from internal and independent or regulatory external auditors.

6. Exercise oversight to assure that financial audit and internal audit findings are promptly addressed by management.

7. Review City Code Section 2-1.1 and Bylaws (See Resolution No. 15,286 for such delegation) establishing the F&GC not less than every five years to assess its continued adequacy.

Nothing in this policy should be interpreted to limit the City Council from exercising its ultimate authority related to the matters described herein.

CITY OF OXNARD CALIFORNIA	**City of Oxnard Finance Policy**		
TITLE Internal Control – Finance and Governance Committee Duties and Responsibilities			PAGE 4 of 5
NUMBER FPOL 1.03	VERSION 1.0	DOCUMENT OWNER Christine Williams	EFFECTIVE DATE 9/1/2020

2.0 SCOPE

The policy covers, as it relates to the City of Oxnard's internal control environment, the oversight duties of the F&GC. It applies to the F&GC members as designated.

3.0 BACKGROUND

3.1.1. The City's independent financial auditor identified the lack of an audit committee as a material weakness in the Fiscal 2015 Single Audit. The SCO, Committee of Sponsoring Organizations of the Treadway Commission (COSO) and GFOA best practices recommend that a local government establish an audit committee to support the Council in its oversight responsibilities.

4.0 DEFINITIONS

Term	Definition
Internal Control – Integrated Framework	A system of internal controls designed to address three main categories of internal control objectives which are 1. Operations 2. Reporting and 3. Compliance.
California State Controller's Office (SCO)	Accountability and disbursement of the State of California's financial resources.
Government Finance Officers Association (GFOA)	A professional organization that represents public finance officials throughout the United States and Canada. The organization provides best practice guidance, consulting, networking opportunities, publications and periodicals, recognition programs, research, and training opportunities for those in the profession.
Generally Accepted Accounting principles (GAAP)	Common set of accounting principles, standards and procedures utilized by state and local governments.
Significance	The potential for the matter to threaten the achievement of significant operating, reporting or compliance objectives with financial implications.
Oversight	To exercise supervision/management/governance over internal control.
Auditor	Independent financial auditor or internal auditor.

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5.0 ROLES AND RESPONSIBILITIES

Role	Responsibility
Finance and Governance Committee (F&GC)	Exercises oversight of internal controls and audit committee responsibilities consistent with GFOA best practices and the State Controller's Office recommendations on internal control.

CITY OF OXNARD REFERENCES

FPOL 1.01 Adoption of Internal Control – Integrated Framework
FPOL 1.02 Adoption of Internal Control Oversight Responsibilities

6.0 DOCUMENT HISTORY

Version	Summary of Changes	Reason for Changes
1.0	New policy	New policy

City of Oxnard Finance Policy

TITLE			PAGE
Assignment of Authority and Responsibility for Achieving Operational, Reporting and Compliance Objectives			1 of 4
NUMBER FPOL 1.04	VERSION 1.0	DOCUMENT OWNER Christine Williams	EFFECTIVE DATE 9/1/2020
PROCEDURE OWNER Christine Williams	TITLE Sr. Mgr, Internal Controls	(Signature)	DATE 7/14/2020

1.0 POLICY STATEMENT

The City Council provides the following delegations:

1.1.1 City Manager. The City Council delegates to the City Manager responsibility for implementing the following:

1. Strategic planning process for the City Council to establish its annual and/or multi-year goals.
2. Budget and service planning processes.
3. Efficient and effective staffing and organization structure. Organization of staffing assignments and structures designed to achieve objectives and mitigate risks.
4. Processes and delegations to implement the ICIF and risk mitigations.
5. Individual accountability for performance related to internal control responsibilities, ethical behavior and achievement of objectives.

1.1.2 The City Council further expects that the City Manager will hold department heads and all staff accountable for the following:

1. Continuously improving systems by implementing best practices;
2. Communicating expectations regarding implementing and adhering to the ICIF;
3. Evaluating employees' performance in implementing and adhering to ICIF; and
4. Providing training to employees.

1.1.3 *Elected officials with managerial assignments*. Elected officials who also have managerial assignments are subject to the same standards of ethical behavior and performance as the City Manager and department heads. For statutory responsibilities, limits on elected officials' authority shall be clearly described in City Council policies. Where policies are unclear, the City Manager, elected officials or the City Council shall propose changes that result in improved clarity and performance.

2.0 SCOPE

The policy covers the oversight of the City of Oxnard organization in support of internal controls. It applies to the City Council, elected officials with managerial assignments and the City Manager.

3.0 BACKGROUND

3.1.1 Under the council-manager form of government, the City Council sets policy and the City Manager is responsible for carrying out that policy, along with managing the organization and ensuring accountability for performance of all employees under his or her direction. As related to the Internal Control – Integrated Framework (ICIF), the City Council expects the City Manager to provide oversight of the organization in support of internal controls.

Two types of control authorization are described below for this City Council policy.

1. *Risk-based controls.* Controls intended to address risks and objectives that will become a managerial responsibility and related performance measures must be approved by the City Manager or his/her designee.

2. *Compliance and reporting controls.* Controls and objectives that address legal compliance should be reviewed by the City Attorney or his/her designee. Controls or reporting objectives related to financial management should be reviewed by the Chief Financial Officer or his/her designee. Other compliance or reporting related controls and objectives should be reviewed with the City's subject matter expert for non-financial reporting or non-financial compliance.

The ICIF includes an expectation that structures will be in place that will provide reasonable assurance that the City is meeting its operational, reporting and compliance objectives for internal control. The basic structures that should be in place, which rely on the City Manager to organize and manage, follow:

1. *Strategic plan*. A strategic plan or set of clear goals approved by the City Council based on:

    a. A clear understanding of the City's current financial condition as well as long-range financial and economic forecasts;

    b. City Council and community priorities;

c. Periodic risk assessments identifying those risks that could prevent City leaders from achieving operating, reporting and compliance objectives or reaching its goals; and

d. Consistent application of ethics and values.

2. *Budget and service planning processes*. Budget and service planning processes that provide clear, measurable objectives to achieve the operating, reporting and compliance objectives needed to achieve the City Council's strategic plan goals.

3. *Staffing and organization structure*. Organization staffing assignments and structures designed to achieve objectives and mitigate risks.

4. *Implementing internal controls*. Internal controls designed to achieve objectives and mitigate risks.

5. *Accountability*. Individual accountability for performance related to internal control responsibilities, ethical behavior and achievement of objectives.

4.0 DEFINITIONS

Term	Definition
Internal Control – Integrated Framework (ICIF)	A system of internal controls designed to address three main categories of internal control objectives which are 1. Operations 2. Reporting and 3. Compliance.
Risk Assessment	A systematic process of evaluating the potential risks that may be involved in a projected activity or undertaking at all levels.

5.0 ROLES AND RESPONSIBILITIES

Role	Responsibility
City Council	Sets policy
City Manager	Responsible for carrying out policies along with managing the organization and ensuring accountability for performance of all employees under his or her direction

6.0 CITY OF OXNARD REFERENCES

FPOL 1.01 Adoption of Internal Control – Integrated Framework
FPOL 1.02 Adoption of Internal Control Oversight Responsibilities
FPOL 1.03 Internal Control – Finance and Governance Committee Duties and Responsibilities

7.0 DOCUMENT HISTORY

Version	Summary of Changes	Reason for Changes
1.0	New policy	New policy

CITY OF OXNARD CALIFORNIA

City of Oxnard, California

Internal Control – Integrated Framework

July 2020

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Summary

The audit findings in the Single Audit Report for fiscal year ending 2015, and subsequent reports, highlighted the need for the City of Oxnard (City) to adopt an Internal Control Integrated Framework (ICIF) as a policy document, and to develop the necessary internal controls that will ultimately help the City safeguard its assets and achieve its purpose of serving the Oxnard community. The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) ICIF provides a well-established, best practice framework for the adoption of internal control principles by the City.

The City Council (Council) should review and formally adopt the recommended policies, unless already implemented through another process or control, indicated in the City Council Policies section of this document. Upon adoption of the policies, the City Manager and staff will then have the responsibility for implementing the Council's policies, taking into consideration the Administrative Implementation Guidelines (Guidelines) provided herein.

The Council Policies and Guidelines in this document are a work in progress. Management will continue in developing additional policies and Guidelines as necessary. The Guidelines, which address the nine recommended Council Policies, do not require Council action but rather are provided as background information for the City staff's implementation of Council's ICIF policies.

Because the City will build its internal control system using the integrated framework over a period of years, the work will evolve. In the early stages, the City Manager relied on audit findings and recommendations of auditors and consultants to begin developing controls such as the Corrective Action Plan in which the Finance Department reports out to the F&GC and Council every six months.

Adoption of the Council Policies and utilization of the Guidelines is only the first step. For them to be effective, the City will need to commit time, skills, technology, and accountability. Each is described below.

- ***Time*** will be needed by the Council to transfer new duties, including audit committee responsibilities, to the F&GC to review audit and other reports and recommendations by staff to strengthen internal control policies and processes. Time will be needed by City staff to develop detailed process workflow changes that will implement the many components of these internal control Guidelines. This includes training all employees who have any role in financial transactions from origination through approval, as well as those with recordkeeping and custodial responsibilities. It also includes having enough staff in administrative positions that can ensure proper oversight of internal controls and implementation of the procedures contained in the Guidelines.
- ***Skills*** will be needed by members of the F&GC to carry out their roles. Skills will also be needed by City staff to carry out the additional requirements of internal controls. This means that staff must have the technical competence and expertise needed to carry out the procedures. They will also need continuous training on their responsibilities and any updates to City processes or regulatory standards required by rulemaking bodies or other third parties.
- ***Technology*** will be needed to reduce the manual labor of the City's current financial system and to introduce preventive internal controls that will reduce the potential for errors and fraud.
- ***Accountability*** for implementation will be required. This should be in the form of performance expectations from the City Manager through executive staff to all managers and all employees.

To provide the time, skills, technology and accountability needed, the City will need to commit appropriate financial resources. The lack of sufficient resources allocated to internal control results in the problems identified by third-party experts and the City's own staff, Councilmembers and residents.

As the City's use of the framework matures, integration and operation of the system improves and becomes more reliable. Adoption of Policies and Guidelines will not be sufficient to change results. Commitment of resources and accountability for implementation will be required.

Additionally, sections of its City Code and Bylaws may need to be amended to implement the ICIF. In some cases, the current City Code

includes control activities that are not tied to specific risks affecting objectives. When control provisions in the City Code do not support current objectives or address specific risks, they weaken the integrated control process.

Staff will now be accountable for developing and/or maintaining the necessary internal controls for the City's most significant business systems and processes. The combination of these factors will allow the City to create a culture that strives to provide the level of services desired by the community while protecting City resources.

Organization of this Document

This document is organized as described below.

- **ICIF Overview.** An overview of the necessity for the organization to adopt an internal control - integrated framework, the objectives of an internal control structure, components to achieve internal control objectives, and internal control principles that are based on COSO's Internal Control - Integrated Framework.
- **Council Policies.** A set of nine policies for Council consideration and adoption, unless already implemented through another process or control, that addresses the five components of the control framework:
    - COSO Component A: Control environment;
    - COSO Component B: Risk assessment;
    - COSO Component C: Control activities;
    - COSO Component D: Information and communication; and
    - COSO Component E: Monitoring activities.
- **Guidelines.** A set of sixteen Guidelines under the authority and responsibility of the City Manager. These Guidelines, which address the nine recommended Council policies, unless already implemented through another process or control, do not require Council action but rather are provided as background information for the City staff's implementation of Council's ICIF policies.

  COSO Principle 12 requires that City officials deploy control activities through policies that establish what is expected and procedures that put policies in place.

Internal Control - Integrated Framework (ICIF) Overview

Internal Controls are the mechanisms, rules and procedures implemented by an organization to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud. Internal controls can also help improve operational efficiency by improving the accuracy and timeliness of financial reporting. Internal control is a process, affected by the Council, the City Manager and other City personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

The following concepts are fundamental to the definition of internal control. Internal controls should:

- Help to achieve operating, reporting and compliance objectives;
- Consist of ongoing tasks and activities, a means to an end, not an end in itself;
- Be effected by people and not be merely about policy and procedure manuals;
- Provide reasonable, but not absolute, assurance to the City Manager, the senior leadership team (SLT) and the Council that the operational, reporting and compliance objectives are being achieved; and
- Adapt to the City organization; be flexible in application for the entire City, a department, division, work unit or business process.

ICIF Background

The first ICIF version was released COSO in 1992. In 2013 COSO updated the framework to include non-financial controls and risk considerations. Current COSO members include:

- The American Accounting Association (AAA) - http://aaahq.org
- The American Institute of Certified Public Accountants (AICPA) - http://www.aicpa.org/Pages/Default.aspx

- Financial Executives International (FEI) - https://www.financialexecutives.org
- The Institute of Management Accountants (IMA) - https://www.imanet.org/?ssopc=1
- The Institute of Internal Auditors (IIA) - https://na.theiia.org/Pages/IIAHome.aspx

Widespread adoption of the COSO standard in the private sector increased interest in applying the framework to local government. In 2014, the Federal Office of Management and Budget (OMB) established Administrative Requirements for federal grant recipients that included implementation of effective internal controls and suggested that controls be based on the COSO model. https://www.gpo.gov/fdsys/granule/CFR-2014-title2-vol1/CFR-2014-title2-vol1-part200/content-detail.html

In 2014, the Federal Government Accountability Office (GAO) released Standards for Internal Control in the Federal Government (Standards) based on the COSO framework to guide implementation at the federal level. GAO encouraged use of its internal control standards for organizations of all sizes. https://www.gao.gov/greenbook/overview

In 2015, the California State Controller's Office (SCO) Internal Control Guidelines – Local Government Agencies (Guidelines) were released recommending the use of the COSO ICIF or GAO Standards for local government agencies. https://www.sco.ca.gov/Files-AUD/2015_internal_control_guidelines.pdf

The COSO ICIF is recommended as a current best practice of the Government Finance Officers Association (GFOA). http://www.gfoa.org/internal-control-framework

COSO publications provide updated information on the application of ICIF, and GFOA has committed to providing ongoing guidance for practical application of ICIF for state and local agencies. A copy of the COSO ICIF Executive Summary is attached as an appendix to this guide. https://www.coso.org/Pages/ic.aspx

Internal Control Objectives

The ICIF provides for three categories of objectives, allowing City leaders to focus on different aspects of internal control. Objectives within each category are established by the City Manager to achieve Council goals.

1. **Operations Objectives.** These pertain to effectiveness and efficiency of the City's operations including operational and financial performance goals and safeguarding assets against loss.

2. **Reporting Objectives.** These pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms set forth by regulators, recognized standard-setters or Council policies.

3. **Compliance Objectives.** These pertain to adherence to state and federal laws and regulations and to City Code and bylaws provisions or Council policies.

ICIF Components to Achieve Internal Control Objectives

The ICIF is based on five components that are intended to work together to provide reasonable assurance that the operational, reporting and compliance objectives may be achieved. The five components are:

1. ***Control Environment.*** Based on ethical conduct, competence and accountability, this is the foundation for an internal control system. It provides the support and structure to help the City achieve its objectives.

2. ***Risk Assessment.*** Identifies and analyzes the risks facing the City as it seeks to achieve its objectives. This assessment provides the basis for prioritizing and developing appropriate internal controls to eliminate or reduce risks.

3. ***Control Activities.*** This component represents the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the City's information system.

4. ***Information and Communication.*** These are the processes that produce relevant, quality information that managers and staff use to support the internal control system.

5. ***Monitoring.*** These are the processes managers establish and operate to assess the execution and quality of internal control activities over time and to promptly resolve the findings of audits and other reviews.

Internal Control Principles

There are 17 principles within the five components of the ICIF. The principles that follow have been adapted to the City of Oxnard environment. The term "City officials" refers to managers of the organization, at all levels. The original language was developed in 2013 by COSO. https://www.coso.org/Documents/COSO-ICIF-11x17-Cube-Graphic.pdf

Table 1. COSO's 17 Internal Control Principles for City of Oxnard

Components of Internal Control Systems	Principle
A. Control Environment	1. City officials demonstrate a commitment to integrity and ethical values.
	2. The Council demonstrates independence from management and exercises oversight of the development and performance of internal control.
	3. City management establishes, with Council oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
	4. City officials demonstrate a commitment to attract, develop, and retain competent individuals in alignment with objectives.
	5. City officials hold individual(s) accountable for their internal control responsibilities in the pursuit of City of Oxnard objectives.
B. Risk Assessment	6. City officials specify objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
	7. City officials identify risks to the achievement of objectives across the entity and analyze risks as a basis for determining how the risks should be managed.
	8. City officials consider the potential for fraud in assessing risks in achieving objectives.
	9. City officials identify and assess changes that could significantly impact the system of internal control.
C. Control Activities	10. City officials select and develop control activities that contribute to the mitigation of risks in achieving objectives to acceptable levels.
	11. City officials select and develop general control activities over technology to support the achievement of objectives.
	12. City officials deploy control activities through policies that establish what is expected and procedures that put policies in place.
D. Information and Communication	13. City officials obtain or generate and use relevant, quality information to support the functioning of internal control.
	14. City officials internally communicate information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
	15. City officials communicate with external parties regarding matters affecting the functioning of internal control.
E. Monitoring Activities	16. City officials select, develop, and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
	17. City officials evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action including Senior Manager of Internal Controls, senior management, Finance and Governance Committee, and the Council, as appropriate.

The ICIF is intended to be sustainable and adaptable to new goals, objectives and risks. Controls are intended to be implemented pursuant to ICIF principle 12 through policies that may change as the City's circumstances change.

Some City Code sections and Bylaws may need to be amended to accomplish this shift in focus. In some cases, the current City Code includes control activities that are not tied to specific risks affecting objectives. When control provisions in the City Code do not support current objectives or address specific risks, they conflict with the risk and objectives-based focus of the integrated control process.

City Council Policies

This section recommends the consideration and adoption of nine proposed Council policies associated with the ICIF. Each of the nine polices will be created and presented separately to the Council for adoption, unless already implemented through another process or control. Each policy is associated with one of the five COSO components described in the previous section of this report. Each of the components is associated with ICIF principles as shown in table 1. The nine proposed policies are shown in Table 2 below.

Table 2. Policies Associated with the Internal Control—Integrated Framework

COSO Category	City Council Policies
A. Control Environment	1. Adoption of Internal Control – Integrated Framework 2. Adoption of Internal Control Oversight Responsibilities 3. Finance and Governance Committee Duties and Responsibilities 4. Assignment of Authority and Responsibility for Achieving Operational, Reporting and Compliance Objectives 5. Performance Evaluations of City Manager and City Attorney
B. Risk Assessment	6. Council's Risk Assessment Responsibilities
C. Control Activities	7. Development and Implementation of Internal Controls
D. Information and Communication	8. Commitment to Transparent and Complete Information and Communication
E. Monitoring Activities	9. Creation of a Monitoring System

COSO Category A: Control Environment

Policy 1: Adoption of Internal Control – Integrated Framework

Background

The City of Oxnard needs an overarching and unifying framework for its internal controls. The California State Controller's Office (SCO) issued *Internal Control – Guidelines for Local Government Agencies* in 2015 to improve local governments' ability to reach their goals by maintaining strong internal controls. The Federal Office of Management and Budget (OMB), through its Uniform Guidance (2 CFR 200) required federal grantees to implement effective internal controls in the first fiscal year following the December 2014 effective date of the regulations. For the City of Oxnard this was the fiscal year ending June 30, 2016.

Other recognized sources for developing and maintaining the ICIF include the *Green Book* of United States Government Accountability Office (GAO), the Statements of Auditing Standards (SAS) of the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA), the California Committee on Municipal Accounting (CCMA), the Generally Accepted Government Auditing Standards (GAGAS, *Yellow Book*) of the GOA and best practices suggested GFOA.

Policy Statement

The Council adopts the ICIF and includes in this policy the 17 internal control principles of COSO. The use of recognized national and state internal control standards and practices shall be expected of all City officials.

The ICIF shall serve as the underpinning of all the City of Oxnard's internal control policies and implementation Guidelines and activities. The City Manager is directed to use the ICIF and 17 COSO principles when creating policies and implementing internal controls whenever it is feasible, effective and efficient.

Policy 2: Adoption of Internal Control Oversight Responsibilities

Background

The City Council performs a critical oversight responsibility on behalf of the Oxnard community to provide a strong internal control framework and accurate financial reporting. The City Council does this by exercising its oversight duties and working with the City Manager, City Attorney and other officials to create a control environment based on ethical practices, competency and compliance with laws, regulations and policies.

Policy Statement

The Council shall identify and accept its oversight responsibilities in the development and performance of internal control. This includes the following:

a. Ensuring that Council appointees have the skills, knowledge, and experience necessary for their job duties and responsibilities;

b. Applying objectivity in evaluating information and when making decisions;

c. Ensuring the completion of periodic risk assessments; and

d. Following up on completion of actions to address audit findings.

Policy 3: Finance and Governance Committee Duties and Responsibilities

Background

The City's independent financial auditor identified the lack of an audit committee as a material weakness in the Fiscal 2015 Single Audit. The SCO, COSO and GFOA best practices recommend that a local government establish an audit committee to support the Council in its oversight responsibilities.

Policy Statement

The Council shall add audit committee responsibilities to the role of the F&GC. The F&GC was established through City Code Section 2-1.1 and Bylaws (See Resolution No. 15,286 for such delegation). The City Council establishes F&GC as a critical element in the City's internal control environment. The responsibilities will be consistent with best practices recommended for an audit committee by GFOA Best Practice – Audit Committees. It is also consistent with SCO recommendations in its publication *Internal Control Guidelines - California Local Agencies.*

The Council will adequately fund the work of the F&GC, including the cost of the financial auditors and internal auditors who report to it and the experts it engages to fulfill its responsibilities, through adoption of appropriations in the budget resolution. The City Manager and City Attorney shall assign staff support to the F&GC.

Composition and Meetings. The F&GC shall be composed of three of the seven members from the City Council. GFOA recommends that members of the F&GC have a basic understanding of governmental financial reporting and auditing or be willing to attend training to obtain that understanding.

No elected or appointed official who exercises managerial responsibilities that fall within the scope of a financial audit or internal audit should serve as a member of the committee or as an advisor to the F&GC. Members of the Committee have a duty to exercise an appropriate degree of professional skepticism in their interactions with financial auditors, internal auditors, other elected officials with assigned internal control or managerial responsibility and management.

The F&GC shall meet per City Code Section 2-1.1 and Bylaws (See Resolution No. 15,286 for such delegation) but may schedule additional meetings as necessary to fulfill its duties and responsibilities. The F&GC shall, at its discretion, have access to the services of financial experts and

appropriate specialists, if required, to assist in fulfilling responsibilities in its role as the audit committee of the City.

The financial expert(s) and appropriate specialists should, through education and experience relevant to the government sector, understand generally accepted accounting principles (GAAP) and financial statements, be experienced in preparing or auditing financial statements of a comparable agency, be experienced with applying such principles in connection with accounting for estimates, accruals and reserves, be experienced with internal controls, and understand audit committee functions.

Responsibilities. The F&GC shall be responsible for all of the following:

a. Advise the Council and provide oversight for policies to implement or improve the City's internal controls and financial condition.

b. Review Council appointees' performance related to implementing internal control activities.

c. Review instances where City staff has overridden internal controls in connection with significant or material matters.

d. Review non-routine, significant or material financial matters so it can advise the Council on those matters. Non-routine matters include items not managed in the normal course of municipal operations or matters not covered by existing policies. In this policy, "significance" relates to the potential for the matter to threaten achievement of significant operating, reporting or compliance objectives with financial implications. "Materiality" relates to the size of the financial impact of the matter on the City.

e. Advise the Council on new and modified financial management policies. Policies would include, but not be limited to, budgeting, capital improvement/construction in progress, revenues, fund balance, reserves, debt, accounting and risk management. It may also review, discuss and recommend changes to policies or City Code sections and Bylaws to modernize the City's administrative and regulatory framework to implement financial audit or internal audit findings or modernize and improve the City's financial condition, internal control framework and business processes.

f. Provide oversight of management's development of policies relating to maintaining a strong control environment and work with management to plan periodic risk assessments relating to

achieving the Council's strategic goals and related operational, reporting and compliance objectives.

g. Review finance related Council policies at least every five years.

h. Carry out Audit Committee responsibilities as follows:

1. Recommend to the full Council the appointment, compensation, retention and oversight of any independent accountants engaged for the purpose of preparing or issuing independent financial audit or internal audit reports or performing other independent audit review, agreed upon procedures or attest services for the City.

2. Ensure that all financial auditors and internal auditors engaged by the F&GC pursuant to this policy shall report directly to the Committee.

3. Receive a report from the City Manager (or Internal Auditor or City Manager's designee) about any employee complaints and their resolutions regarding accounting, internal accounting controls or financial auditing matters.

4. Discuss audit reports and financial statements with the City Manager, Chief Financial Officer and others as the City Manager designates and at its discretion, meet with the City's financial auditors and experts without management present to discuss reports and financial statements.

5. Have access to all reports from internal and independent or regulatory external auditors.

6. Exercise oversight to assure that financial audit and internal audit findings are promptly addressed by management.

7. Review City Code Section 2-1.1 and Bylaws (See Resolution No. 15,286 for such delegation) establishing the F&GC not less than every five years to assess its continued adequacy.

Nothing in this policy should be interpreted to limit the Council from exercising its ultimate authority related to the matters described herein.

Policy 4: Assignment of Authority and Responsibility for Achieving Operational, Reporting and Compliance Objectives

Background

Under the council-manager form of government, the Council sets policy and the City Manager is responsible for carrying out that policy, along with managing the organization and ensuring accountability for performance of all employees under his or her direction. As related to the ICIF, the Council expects the City Manager to provide oversight of the organization in support of internal controls.

Two types of control authorization are described below for this Council policy.

1. *Risk-based controls***.** Controls intended to address risks and objectives that will become a managerial responsibility and related performance measures must be approved by the City Manager or his/her designee.

2. *Compliance and reporting controls*. Controls or objectives that address legal compliance should be reviewed by the City Attorney or his/her designee. Controls or reporting objectives related to financial management should be reviewed by the Chief Financial Officer or their designee. Other compliance or reporting related controls and objectives should be reviewed with the City's subject matter expert for non-financial reporting or non-financial compliance.

The ICIF includes an expectation that structures will be in place that will provide reasonable assurance that the City is meeting its operational, reporting and compliance objectives for internal control. The basic structures that should be in place, which rely on the City Manager to organize and manage, follow:

1. *Strategic plan.* A strategic plan or set of clear goals approved by the City Council based on:

    a. A clear understanding of the City's current financial condition as well as long-range financial and economic forecasts;
    b. City Council and community priorities;
    c. Periodic risk assessments identifying those risks that could prevent City leaders from achieving operating, reporting and compliance objectives or reaching its goals; and

d. Consistent application of ethics and values.

2. *Budget and service planning processes.* Budget and service planning processes that provide clear, measurable objectives to achieve the operating, reporting and compliance objectives needed to achieve the Council's strategic plan goals.

3. *Staffing and organization structure.* Organization staffing assignments and structures designed to achieve objectives and mitigate risks.

4. *Implementing internal controls.* Internal controls designed to achieve objectives and mitigate risks.

5. *Accountability.* Individual accountability for performance related to internal control responsibilities, ethical behavior and achievement of objectives.

Policy Statement

The Council provides the following delegations:

- *City Manager***.** The Council delegates to the City Manager responsibility for implementing the following:

  a. Strategic planning process for the Council to establish its annual and/or multi-year goals.

  b. Budget and service planning processes.

  c. Efficient and effective staffing and organization structure. Organization staffing assignments and structures designed to achieve objectives and mitigate risks.

  d. Processes and delegations to implement the ICIF and risk mitigations.

  e. Individual accountability for performance related to internal control responsibilities, ethical behavior and achievement of objectives.

  The Council further expects that the City Manager will hold department heads and all staff accountable for the following:

  - Continuously improving systems by implementing best practices;

- Communicating expectations regarding implementing and adhering to the ICIF;
- Evaluating employees' performance in implementing and adhering to ICIF; and
- Providing training to employees.

- *Elected officials with managerial assignments*. Elected officials who also have managerial assignments are subject to the same standards of ethical behavior and performance as the City Manager and department heads. For statutory responsibilities, limits on elected officials' authority shall be clearly described in City Council policies. Where policies are unclear, the City Manager, elected officials or the Council shall propose changes that result in improved clarity and performance.

Policy 5: Performance Evaluations of City Manager and City Attorney

Background

The council-manager form of government relies on a City Manager carrying out the policies of the Council and implementing an efficient and effective organization. Internal controls, to be effective, require the City Manager and City Attorney to be responsible for overseeing the system, providing resources, tools, assignments and systems needed for staff to implement the components of the ICIF.

The Council wants reasonable assurance that the system of internal control will eliminate or mitigate risks that threaten the municipal corporation and service delivery objectives. Performance evaluations are an essential tool in creating this assurance. The Council has responsibility to evaluate the performance of its appointees in fulfilling assigned internal control responsibilities. The City Manager and City Attorney have responsibility to evaluate staff under their authority.

Policy Statement

The Council shall conduct a performance evaluation of the City Manager and City Attorney related to internal control responsibilities annually and may do so more often if desired. The evaluation shall include a review of the effectiveness of internal controls and implementation of the ICIF. The Council's discretion in establishing criteria and evaluating performance of its appointees outside the scope of internal control oversight is not limited by this policy.

COSO Category B: Risk Assessment

Policy 1: City Council's Risk Assessment Responsibilities

Background

The Council understands the importance of ensuring that risk assessments are performed to serve as a basis for adapting the internal control framework to changing conditions. The Council policies define its control responsibilities, approved appointment of new independent certified public accountants as its independent auditors, and made improvements in the internal support and governance functions a strategic objective.

Policy Statement

The Council shall:

a. Review the City's risk tolerance and philosophy on a regular basis,

b. Ensure that the City's strategic goals and decisions are in alignment with the organization's risk tolerance and philosophy,

c. Stay apprised of the most significant risks and ascertain whether management is responding appropriately,

d. Review the organization's risk exposures and define the Council's tolerance for risk by considering the cumulative impact of identified risks in relation to the organization's risk tolerance, and

e. Assign the F&GC to work with the Internal Auditor to identify and evaluate risk factors for fraud and oversee the City Manager's response to such issues.

COSO Category C: Control Activities

Policy 1: Development and Implementation of Internal Controls

Background

To comply with standards for ICIF principles and components, the Council recognizes the need to eliminate or reduce risk based on reasonable standards and level of effort. Proper internal controls must be developed and implemented to safeguard assets and ensure the City

achieves its operational objectives. The responsibility to develop those controls must be established and evaluated on an ongoing basis.

Policy Statement

1. The Council directs the City Manager to develop internal controls that are tailored to the City's specific structure, risk exposure and resource levels. To the extent resource levels are not adequate to reduce risk in some areas; the Council will reassess its risk tolerance philosophy and provide specific direction to the City Manager.
2. City practices shall comply with ICIF principles and components related to control.
3. Controls shall be developed that respond to and assure compliance with findings from external and/or internal audits and that consider the outcomes of risk assessments performed under the policies related to COSO Category B – Risk Assessment.

COSO Category D: Information and Communication

Policy 1: Commitment to Transparent and Complete Information and Communication

Background

The Council recognizes the importance of effective, accurate and comprehensive financial information for informed decision making. The community and the City organization expect the Council to provide policy leadership supportive of ongoing communication regarding the City's financial health and long-term sustainability. Failure to identify and address financial reporting and compliance issues can result in significant financial losses, create potential liabilities, or force unplanned use of resources.

Information and communication is critical to implement the ICIF and to achieve the City's strategic goals and financial sustainability. Regular, timely and accurate information is critical regarding the City's ability to adapt to changes in law, implementation of the ICIF, and compliance with governmental accounting standards. This requires leadership and a culture that encourages trust, and values open and courteous communication. Effective communication based on courtesy and respect is expected of all elected officials, employees and managers.

Policy Statement

1. The Council is committed to providing full and transparent financial information to the public, aimed at long-term financial sustainability.

2. The Council expects management to implement an information and communications framework that supports operational, reporting and compliance objectives. The products of the City's information and communication systems are expected to be of sufficient quality and usefulness to enable the successful implementation of the ICIF and provide reasonable assurance to the Council that its goals and the City's operating, reporting and compliance objectives will be achieved.

3. The City Council directs the City Manager to implement the necessary communications protocols and information sharing processes within the organization and to elected officials and the public.

4. The City's business communications shall conform to the standards established by the Council through the policies documented in the Personnel Rules and Regulations.

5. Elected and appointed officials and all employees shall demonstrate ethical behavior, competence, courtesy and respect in their daily actions.

COSO Category E: Monitoring Activities

Policy 1: Creation of a Monitoring System

Background

The Council recognizes that the ICIF and the City's internal controls systems and processes must be monitored regularly and effectively. This requires that components of the internal control system not only exist but are also functioning properly, and that any deficiencies are reported to the Council and senior management, and that corrective action is taken in a timely manner.

Policy Statement

1. The Council directs that the City Manager implement a monitoring system for internal control processes. The monitoring system shall be one that gives the community, City Council, employees and other stakeholder's reasonable assurance that the City is adhering

to ICIF principles and is achieving operating, reporting and compliance objectives.

2. The City Manager shall report to the City Council the results of any evaluations conducted by staff, consultants or auditors about whether the internal control components are present and functioning properly no less than annually.

3. The City Manager shall evaluate and report to the Council any internal control deficiencies identified as part of the City's monitoring activities and identify the corrective actions taken for curing the deficiencies.

Administrative Implementation Guidelines

This section contains sixteen Guidelines associated with the ICIF, as shown in Table 3. Each Guideline is associated with one of the five COSO categories shown in the previous section of this report.

As defined previously, the term "Guideline" is intended to incorporate the meaning of Committee of Sponsoring Organizations of the Treadway Commission (COSO) Principle 12 which requires that City officials deploy control activities through policies that establish what is expected and procedures that put policies in place.

Table 3. Administrative Implementation Guidelines

COSO Component	Administrative Implementation Guidelines
A. Control Environment	1. Implementation of Internal Control – Integrated Framework by City Manager 2. Management's Internal Control Oversight Support Responsibilities 3. ICIF Progress Reporting by Chief Financial Officer 4. Integrity and Ethical Values 5. Performance Expectations and Appraisal/Evaluation Systems 6. Financial Management and Operations Training 7. Succession and Turnover Contingency Planning 8. Adequate Finance Management and Operations Staffing
B. Risk Assessment	1. Risk Assessment Responsibilities
C. Control Activities	1. Development of Controls 2. Future Control Activities 3. Administration of New and Restricted Funds 4. Non-Standard Issues Related to Accounting, Compliance and Reporting Requirements
D. Information and Communication	1. Developing Effective Information and Communication Activities and Channels 2. Expected Compliance with Information and Communication Principles and Activities
E. Monitoring Activities	1. Monitoring Responsibilities and Actions

COSO Category A: Control Environment

The City Manager and City Attorney, as the Council's appointees, are responsible for ensuring the internal control environment is adequate. The

implementation authority may be delegated by the City Manager to the Chief Financial Officer. The senior leadership team and all employees are expected to support the ICIF and carry out practices to ensure the integrity of the City's finances, manage risks, achieve City objectives, and fulfill obligations of public service.

Best practice resources are available in carrying out these responsibilities. Resources include: "*A Performance Management Framework for Local Government*" published by the National Performance Management Advisory Committee (NPMAC); GFOA and its criteria for the achievement award for budget documents. Best practices expect that managers assign internal control responsibilities to employees reporting to them and incorporate the employees' performance of assigned responsibilities into the performance review process pursuant to policies established by the City Manager.

Guideline 1: Implementation of Internal Control – Integrated Framework by City Manager

Background

The independent auditors' Single Audit Report for Fiscal Year ending 2015, and subsequent reports, found that the City did not have a system of internal control that was documented and monitored effectively. Some controls existed in practice but were not integrated with other controls.

The SCO and OMB recommend COSO's Internal Control Integrated Framework for use by local governments. The framework is also recommended by the GAO that has based federal internal control standards on it. GFOA considers the framework a best practice in state and local government financial management.

OMB requires implementation of an internal control system equivalent to the ICIF for federal grant recipients. OMB required use of the framework or an equivalent system of internal control by fiscal years beginning after December 2014 for entities receiving federal awards. OMB's *Yellow Book* required Single Audit disclosures of material and significant weaknesses in controls affecting financial reporting.

Administrative Guideline

The City Manager shall:

1. Ensure that City management and staff implement the ICIF consistent with national standards and best practices, and as recommended or required by the SCO and OMB. The ICIF will

incorporate recognized standards whenever feasible, effective and efficient.

2. Direct the CFO to be responsible for implementing control activities and measures required to build and maintain an internal control system.
3. Convey that all City employees are expected to support the CFO in managing and maintaining the internal control system overseen by the City Manager and Council.
4. Conduct periodic risk assessments to help the Council and managers have reasonable assurance that operational, reporting and compliance objectives essential to achieving the Council's goals are in place.
5. Conduct periodic Council study sessions to discuss the status and effectiveness of controls implemented to eliminate or mitigate risks identified in the risk assessment.
6. Direct the CFO, with the support of the senior management team, to implement the ICIF. Priority attention should be directed to risks that could result in inaccurate financial reporting and risks that could pose opportunities for fraud.
7. Assure that training is provided to City employees to implement the ICIF and that accountability for implementation is included in all performance evaluations.
8. Assure that publications and regular updates will be available to staff to support ongoing maintenance and improvement of the internal control system.
9. Recruit, train and retain employees with knowledge and experience in effective internal control systems.
10. Establish the expectation that the CFO and staff will continuously improve systems to streamline practices while ensuring proper internal controls and management of risks. Where there are time-consuming practices that have little impact on risks, the CFO and others are encouraged to identify methods of streamlining to achieve efficiencies.
11. For control activities related to systems and processes that depend on the participation of multiple departments to function effectively, it is expected that the CFO establish and communicate

control responsibilities for employees in other departments consistent with the direction of the City Manager and in consultation with the responsible department head.

Guideline 2: Management's Internal Control Oversight Support Responsibilities

Background

The Council assigns specific responsibilities to the City Manager relating to internal control standards and practices and for supporting the Council in the performance of their oversight responsibilities. An effective system of internal control is required by grantors and provides reasonable assurance that the City can reach operating, reporting and compliance objectives essential to assuring the Council's goals will be achieved.

The Council expects the City Manager and management staff to create an organizational control environment based on ethical practices, competency and compliance with Federal, State and local law, regulations and policies. The Council, the City Manager and management staff oversee the City's system of internal controls. Proper oversight requires employees charged with internal control oversight and support responsibilities to monitor and report on the operation of the system of internal controls.

This guideline has several purposes:

- To establish the City Manager's policies for implementing support for the internal control oversight policies of the Council and management.
- To assign responsibility for oversight of the system of internal control to specific management team members.
- To establish processes that assess risks to provide the Council and management reasonable assurance that operating, reporting and compliance objectives essential to reach Council goals are achieved.
- To establish processes that monitor and report on the status of the City's ICIF as required by Council policy.

Administrative Guideline

The City Manager maintains overall authority and responsibility for the effective implementation of the ICIF. Activities and actions shall include the following:

1. Regular discussions about the operation and effectiveness of internal controls by the senior leadership team to make recommendations to the City Manager for improvements in effectiveness and efficiency.
2. Regular reviews by the senior leadership team with their management team regarding assigned control responsibilities and their effectiveness.
3. Regular reporting to the F&GC by the CFO regarding the results of periodic internal control reviews.
4. Annual reviews of the effectiveness of the City's ICIF with the Council and a complete review of all ICIF policies at least every four years.
5. Annual review of the direct internal control responsibilities of senior managers with the Council.
6. Regular reporting to the F&GC regarding significant internal control decisions and new or changed control activities pertaining to significant or material risks affecting operating, reporting and compliance objectives.
7. Periodic updates to the F&GC and, if required, regulators regarding the status of new policies and control activities that address problems identified by internal and external auditors and consultants.
8. Annual reporting by the CFO to the Council from the F&GC regarding the Committee's activities and accomplishments in fulfilling its responsibilities.
9. Preparation of reports and presentations regarding significant internal control and financial management policies and issues based on consultation with the Mayor and the Chair of the F&GC.
10. Conducting periodic risk assessment processes by the City Manager, City Attorney and Chief Financial Officer to identify those that may impact operating, reporting and compliance objectives essential to reaching the Council's goals. Such risk assessments shall incorporate the results of focused risk assessments or analyses completed by departments, internal and external auditors and consultants. The results shall be reported to the Council's F&GC.

Guideline 3: ICIF Progress Reporting by Chief Financial Officer

Background

The Council has directed the City Manager to make periodic reports on the progress made on implementing the ICIF. The City is going through implementation of the integrated framework, implementation of a new financial management system and projects to correct issues identified by the City's auditors and consultants. No standards for the content of the periodic reports have yet been established.

The purpose of this guideline is to describe the expected basic standard for the periodic internal control progress report presented to the Council. These Guidelines should and will be refined over time by City management.

Administrative Guideline

The CFO will create an effective report format to convey information to the F&GC, the Council and others. The following describes the types of content to be provided in the report, including resources and objectives of each major section.

1. *Transmittal Letter*. This letter should be signed by the City Manager, whose focus will be the impact of the ICIF on operating objectives; the City Attorney, whose focus will be on compliance objectives; and the CFO, whose focus will be on reporting objectives. The letter should cite the policies that led to the creation of the report and describe highlights of progress on the ICIF as it relates to objectives and the Council's goals.

2. *Executive Summary*. The summary should focus on the current status of the ICIF and progress made on improving the framework since the last periodic report. Progress information should include information about:

    - New policies adopted to implement internal controls,
    - Results of monitoring of control operation and effectiveness,
    - Status of significant auditor and consultant recommendations relating to the control framework,
    - Major issues revealed by the most recent risk assessment,
    - Significant instances where management overrode internal controls, and
    - Challenges affecting ICIF implementation efforts.

3. *Progress reports by category.* Reports of progress on each ICIF component describing implementation status of policies relating to that component, as follows:

    a. Control environment,
    b. Risk assessment,
    c. Control activities,
    d. Information and communication, and
    e. Monitoring activities.

4. *Finance and Governance Committee Reports.* Status of the following:
    a. Audit committee annual report,
    b. Copy of most recent Comprehensive Annual Financial Report and all accompanying reports on the evaluation of internal controls,
    c. Most recent Single Audit Corrective Action Plan, and
    d. Copy of most recent Single Audit Report.

5. *Exhibits.* Recommended exhibits to the periodic report, as appropriate for any particular period report, include:
    a. COSO Internal Control – Integrated Framework Executive Summary,
    b. SCO Guidelines for Internal Control – Local Government Agencies,
    c. Glossary of abbreviations,
    d. Internet links for major resources and references,
    e. Risk assessment,
    f. Sources of deficiency findings and recommendations for improvement. These may be full reports or sections of reports with findings and recommendations, such as:
        i. Management Partners' Report on Oxnard Strategic Plan: Phase 1 – Corporate Support, Accountability and Value Systems.
        ii. The independent auditor's internal Control section of the most recent Single Audit report and other audits described in the audit committee report.
        iii. Relevant sections of reports on maintenance districts, development related capital fees, etc.
        iv. Relevant sections of reports from the City's internal auditors.

Recommended schedule

The following schedule is intended to minimize conflicts between ICIF work and the annual audit and budget efforts.

- *January and February:* Prepare and present a periodic report to the Council. This timing will allow incorporation of the most recent independent audit findings and the Audit Committee report from the F&GC.
- *November and January:* Prepare and present risk assessment and related reports. This schedule provides for regular incorporation of this effort in the City's budget and service planning process so that risks can be identified and related control measures can be funded.
- *June through September:* Prepare detailed component status report to document internal control system activities and update the Corrective Action Plan for the independent auditors.

Guideline 4: Integrity and Ethical Values

Background

Effective internal controls depend on a competent and ethical organization. Competence incorporates creation of an atmosphere of courtesy and respect in the workplace to assure that integrated cooperative efforts can be sustained. To document its commitment to ethical practices, the Council approved the Ethics Advisory Subcommittee Report relating to standards of conduct for the Council and appointees to City boards and commissions.

Management should maintain and document its commitment to ethical standards through policies, codes of conduct and performance evaluation to make expectations of ethical conduct clear.

The purpose of this guideline is to:

- Establish and communicate expectations for ethical conduct by City employees;
- Prioritize training in ethical behavior and legal compliance for City staff with priority focus on employees signed to internal control responsibilities;
- Support the City's policy of including discussion of ethical and compliance issues in employee performance evaluations; and

- Provide sustainable processes to evaluate and improve ethical conduct.

Administrative Guideline

1. The City Manager, with the assistance of the City Attorney, will report to the Council on the effectiveness of the Code of Conduct in creating a culture of courtesy and respect and improving ethical behavior in the City. This report will be presented in connection with the periodic Council internal control review.

2. The senior leadership team shall review and update the Code of Conduct as it applies to City employees at least every five years to determine whether changes are needed to fully implement the internal control integrated framework. The Code of Conduct should:

    a. Be consistent with the values expressed in the ethical conduct principles adopted by the Council.

    b. Reinforce organizational values and clearly state expectations regarding compliance with applicable laws, regulations and policies.

3. The Human Resources Director and City Attorney shall coordinate Code of Conduct training for employees throughout the year in accordance with the following:

    a. Code of Conduct training for all new employees (full- and part-time) shall occur within 30 days after being hired.

    b. Employees will receive training in the current version of the Code of Conduct no less than every three years.

    c. Each employee will be required to execute a statement acknowledging receipt of a copy of the Code of Conduct and their understanding of their obligation to model expected behaviors in their work and professional relationships.

    d. Designated employees will receive additional training by the City Attorney's Office in state laws regarding ethics, including but not limited to AB 1234, FPPC Form 700, and the Brown Act.

4. The senior leadership team shall discuss issues of concern regarding compliance with the Code of Conduct in connection

with periodic internal control reviews and make recommendations for improvement.

5. The City's performance evaluation process for employees shall include a discussion of ethical values and behaviors required by the Code of Conduct.

6. The City Manager, City Attorney and CFO shall review workforce knowledge and experience regarding managing legal compliance in administrative functions to develop a program that continuously improves organizational capacity and competency relating to compliance objectives.

Guideline 5: Performance Expectations and Appraisal/Evaluation Systems

Background

Ongoing employee performance evaluations will support the Council's goal of creating a strong control environment by assuring that the City of Oxnard is served by an ethical, competent and accountable workforce. The SCO's Internal Control Guidelines for Local Government Agencies recommend implementation of a performance evaluation system that includes elements related to assigned internal control responsibilities. The OMB's Uniform Guidance for Federal Award Recipients also emphasizes performance management and performance reporting for grant-funded activities. The GFOA considers performance evaluation a best practice.

The City implemented a new employee performance evaluation system in FY 2017-18. The Council has directed the City Manager to implement an ICIF consistent with COSO standards as recommended by the SCO and OMB.

The Council establishes strategic goals for the City and wants reasonable assurance that the system of internal control will eliminate or mitigate risks that threaten achievement of those goals. Performance evaluations are an essential tool in creating this assurance.

The purpose of this guideline is to:

- Establish the elements of the City's employee performance evaluation system that will apply to persons with financial management and operations internal control responsibilities as recommended by the SCO. Elements may also be adapted from GFOA's best practices.

- Implement internal control-related elements in the City's employee performance evaluation program.
- Encourage recruitment and retention of competent, ethical employees.
- Encourage regular discussions of ethical standards of conduct, internal control responsibilities and performance related to operating, reporting and compliance objectives to assure that the people operating the system of internal control can identify and manage threats by adapting the control system to current and expected conditions.
- Create a fair and supportive system focused on accountability for assigned responsibilities.

Administrative Guideline

The City Manager shall ensure that a meaningful performance evaluation system is in place generally, and specifically as related to implementing the ICIF. This includes the formal annual review process and regular, ongoing performance discussions. Review of problems or issues should not be delayed until the annual review but should be discussed as they arise.

1. City employees will be required to possess and maintain a level of competence that allows them to accomplish their assigned responsibilities, as well as understand the importance of effective internal control. Management shall establish and communicate expectations of competence for key roles, and other roles at management's discretion, to help the City achieve its objectives. Managers will assess the related competence levels of staff and, to the extent necessary, provide training, mentoring, and coaching opportunities to reduce the competency gap.
2. Managers will hold all City employees accountable for performing their assigned internal control responsibilities by incorporating those responsibilities into the performance expectations for each affected position and discussing them during the periodic performance evaluations for each position.
3. Employees with internal control responsibilities shall be evaluated annually. All managers and supervisors shall evaluate those employees who report to them directly.

4. Performance evaluations shall include discussions about operations, reporting and compliance objectives that support the Council's goals consistent with the City's internal control policies. Such discussions will include ethical conduct and internal control roles and responsibilities. Internal control performance evaluations will be based on specific control assignments for systems, processes and control activities.
5. Performance evaluation forms shall be updated to incorporate performance assessments related to compliance with internal control related operational, reporting and compliance objectives.
6. Performance that falls below City standards will be addressed by providing recommendations for improving performance. Performance that is deemed egregious or creates significant deficiencies in internal control operations may become subject to progressive disciplinary procedures detailed in the City's Personnel Rules and/or the memorandum of understanding for the affected employee. This may result in a performance improvement plan or other disciplinary actions up to and including termination from employment.
7. The Finance Department shall provide regular feedback to City employees and managers regarding actions, policies and procedures that strengthen or weaken the system of internal control.

Department heads and designees have the responsibility to provide direct and constructive feedback to employees regularly and not wait until a problem arises, and take action as needed to correct performance problems related to internal control. The following tasks are expected to be carried out by department heads and their designees.

1. Establish measurable objectives for each employee based on internal control responsibilities.
2. Conduct performance evaluations with each direct report at least annually and within a period not greater than 60 days after the end of the period to which the evaluation applies. Evaluations may be more frequent in periods of significant change or when performance issues require more frequent discussion.
3. Identify risks, including fraud, that could affect objectives and controls needed to provide assurance that goals can be completed.

4. Identify training and development opportunities that would improve effective performance of responsibilities and prepare employees for future career opportunities.
5. When appropriate, discuss succession, turnover, and contingency planning to reduce the risk that lapses resulting from turnover would create in internal control.

Guideline 6: Financial Management and Operations Training

Background

The ICIF standards required for implementation of a Control Environment need to be based on ethical behavior, competency and individual accountability. Individual accountability cannot be effective unless internal control responsibilities are performed by employees who are experienced and knowledgeable about their assignments. Persons involved in financial management and services in the Finance and operating departments have responsibility for critical control activities that require technical knowledge and training.

This guideline is to ensure that persons charged with responsibility for financial management and financial services receive training so they may perform, build and maintain assignments competently.

Administrative Guideline

1. Financial managers in all departments, including elected officials with managerial responsibilities, shall be required to competently administer and implement the City's internal control system. Knowledge and skills should include, but not be limited to the following areas:
    a. Financial and regulatory reporting,
    b. Budget and financial analysis,
    c. Major transaction processing systems,
    d. Cash and investments,
    e. Issuance and management of long term debt,
    f. Continuing disclosure to capital market participants,
    g. Grant management,
    h. Utility financial management and reporting,

i. Development related systems including special districts and impact fees,

j. Personnel related expenditures, and

k. Non-personnel related expenditures.

2. Managers and supervisors shall meet with each employee performing finance related work to develop an individual training plan to improve or maintain competence in operational and strategic priority areas related to their assignments for the next year. Copies of those plans shall be forwarded to the Finance Department prior to the beginning of the annual budget process based on instructions issued by the Budget Division.

3. Finance Department managers will meet other department directors annually to identify training requirements for employees outside the department who have internal control responsibilities to develop a plan to meet finance-related training needs.

4. Annual budgets shall provide adequate funding to provide in-house and external training required to maintain competency in financial functions. Training recommendations shall be based on internal and external resources, which may include:

   a. California Statement Municipal Finance Officers association (CSMFO) - webinars, chapter meetings, conference and group training;

   b. California Debt and Investment Advisory Commission (CDIAC) – group training;

   c. Government Finance Officers' Association (GFOA) – publications, online training, webinars, Certified Public Financial Officer (CPFO) certification, group training and conference;

   d. League of California Cities – Conferences;

   e. American Institute of Certified Public Accountants (AICPA) or California Society of Certified Public Accountants (CSCPA) – Conferences and online training;

   f. Municipal Securities Rulemaking Board (MSRB) – Online and webinar training;

   g. California Municipal Treasurers' Association (CMTA) – Conference and group training;

h. Association of California Water Agencies (ACWA) – Conference;

i. California Public Employees Retirement System (CalPERS) – Contract Agency Conference;

j. Public Retirement Journal – Annual seminars;

k. American Payroll Association – conferences, group training, online training, webinars;

l. California Association of Public Procurement Officials (CAPPO) – Conference, certification;

m. California Municipal Revenue & Tax Association (CMRTA) – Conference.

5. In-house training will be presented by City subject matter experts to ensure employees can fulfill specific financial internal control responsibilities that may be unique to Oxnard.

6. Training plans and schedules should specifically incorporate the following elements:

   a. Specific external training where dates are known, e.g. conferences, GFOA training.

   b. Planned training hours and specified subject areas in employee training plans. Employees and supervisors should regularly review online, webinar and group training offerings from trusted providers to meet plan objectives.

   c. Sessions on fraud prevention and detection for employees working with transaction systems and vulnerable assets.

   d. Documentation, tracking and reporting of courses taken and completed by each employee.

7. Employees participating in any training sessions should:

   a. Prepare a brief memo or email for their supervisor discussing the highlights of the training and describing what action they will take to apply the training at work.

   b. Share information with associates at regularly scheduled staff meetings following the training.

   c. Identify important issues in the training and make presentations in department meetings or present internal classes to improve knowledge and understanding.

8. Finance managers should meet annually to review and discuss training needs, develop objectives for the next fiscal year, review results of the prior year's training activities and propose changes required to meet objectives. The results of this assessment should be incorporated in the budget request and shared with the City Manager and the senior leadership team.

Guideline 7: Succession and Turnover Contingency Planning

Background

Implementing operating, reporting and compliance objectives are dependent on an adequate internal control system. Without adequate planning, employee turnover can cause disruption in the operation of internal control systems. The Finance Department has a critical role in the ICIF with responsibilities in all components of the framework. The SCO specifically recommends succession and temporary staffing contingency plans to mitigate or eliminate the risk that turnover will disrupt the internal control systems.

This guideline defines the scope and frequency of succession and turnover contingency planning to create a sustainable system that ensures plans are created and regularly updated.

Administrative Guideline

1. The CFO and Human Resources Director shall identify financial management positions in the City and develop specific succession plans for all positions. Positions shall be reviewed annually to address turnover risk, and plans shall be updated at least every three years. City experience in recruiting and hiring individuals qualified to fill critical positions shall be considered in developing succession plans.

2. The CFO and finance managers will identify those positions within and outside of the Finance Department considered critical to prevent disruptions in internal control systems and financial services. This should include identifying priorities for documenting important historical knowledge.

3. The HR Director and CFO should review the existing characteristics of the employees of the department and other City employees with critical financial control responsibilities using the following criteria:

    a. Eligibility for retirement within five years,

b. Employees in a performance improvement program or subject to discipline,

c. High-performing employees,

d. Gaps identified in employee training plans,

e. Employees seeking promotion or applying to other agencies,

f. Possible successors to employees in critical positions,

g. Years of experience, and

h. Knowledge not shared by others in the organization.

4. The CFO shall prioritize critical positions and develop specific succession and turnover contingency plans for critical positions. Plans should be prepared or reviewed for all critical positions on a three-year cycle with at least one-third of such position plans updated each year. A succession and turnover contingency plan should include several components as described below.

   a. A position profile that includes, at a minimum, the following information:

      - The approved position description;
      - Required training;
      - Documented and undocumented historical knowledge;
      - Contacts in and out of the department necessary to perform the job;
      - Critical competencies, knowledge, skills and traits needed to succeed; and
      - Assigned internal control responsibilities.

   b. A description of the planned approach to develop knowledge, skills and abilities needed to prepare possible successors for assignment to the critical position. These can include, among other things:

      - Mentoring and coaching,
      - Job shadowing,
      - Cross training,
      - Job sharing, and
      - Continuing education in relevant topics coordinated with employee training plans.

c. A plan for reassigning responsibilities and, if needed, acquiring part-time or consulting assistance, in the event of unexpected turnover in the critical position.

Guideline 8: Adequate Finance Management and Operations Staffing

Background

ICIF standards indicate that excessive workload and inadequate staffing can compromise internal control activities. In prior years, the City has been significantly impacted by inadequate staffing and training and high turnover in administrative support functions with significant internal control responsibilities. Issues and findings identified by consultants and auditors left the City with major challenges to remedy past problems, develop the knowledge and skills of existing staff and build new systems and processes. Recruiting municipal financial professionals across the State is also challenging due to generational changes and the lack of professional development resulting from budget constraints.

The combined challenges of supporting ongoing operations, fixing legacy problems in existing software systems, upgrading financial management systems, and training inexperienced staff significantly increase the risk that internal controls will be disrupted. These Guidelines are to develop a sustainable process to ensure necessary financial staff across the City is in place to mitigate and eliminate operational, reporting and compliance risk.

Administrative Guideline

1. The City Manager shall explicitly address resource needs in the annual budget for financial management services based on his/her independent evaluation of risks and priorities.
2. The City Manager will report to the F&GC each year by December 31 regarding the level of staffing and resources of the Finance Department and other financial management functions with respect to the following:
    a. Support for normal financial management operations with existing employees and expertise consistent with objectives assigned by the City Manager;
    b. Actions to address audit findings and implement auditor recommendations that have been reviewed and approved by the Council or F&GC;

c. Implementation and maintenance of the City's ICIF;

d. A plan for the implementation of new technology; and,

e. The recruitment of qualified employees, employee development, succession and turnover contingency plans.

3. The CFO shall recommend staffing levels and changes in the mix of skills needed to address issues.

COSO Category B: Risk Assessment

The Council and City Manager initiated an organization assessment in 2014 to identify operational risks in the City Manager's Office, Finance Department, Human Resource Department and Information Technology Department. The assessment identified management control deficiencies resulting in past operational ineffectiveness, reporting inaccuracies and weak compliance with laws and policies. The Council also provided funding in FY 2015-16 for additional studies of areas identified by consultants and auditors resulting in more detailed information about control deficiencies.

Guideline 1: Risk Assessment Responsibilities

Background

The City Manager is responsible for providing direction to City staff regarding the development of internal control policies and procedures required to achieve City objectives and strategic goals and to appropriately allocate resources. Assessing risks that threaten operating, reporting and compliance goals is an essential component of the integrated framework and critical to supporting the Council's strategic goals. Periodic risk assessments are important tools for adapting objectives, goals and internal controls to current conditions.

The risk assessment process should be separate from the periodic internal control system review. Because the City will build its internal control system using the integrated framework over a period of years, the work will evolve. In the early stages, the City Manager relied on audit findings and recommendations of auditors and consultants to begin developing controls.

Administrative Guideline

The City Manager shall:

1. Ensure a risk assessment is regularly performed by City personnel, focused on Council and management goals and objectives, and guided by lawful and up-to-date internal controls, an effective organization structure, competency and ethical behaviors.
2. Schedule periodic risk assessments that address each of the following factors:
    a. The ICIF policy, its implementation, effectiveness and need for change or modification.
    b. Citywide strategic goals with respect to operating, reporting, risk tolerance and compliance objectives.
    c. Planned responses and risk tolerance levels for risks that may impact City goals and objectives based on event identification that include:
        - The condition of the national, state and local economy;
        - Long-range financial forecasts based on existing service levels;
        - Infrastructure and capital asset condition assessments;
        - Projected growth in revenues, expenditures and staffing;
        - Analysis and planned responses to adapt the City's use of technology to manage current and future risks; and
        - Effectiveness of defined controls in managing risks associated with major goals and objectives.
3. Assign primary responsibility for facilitating and conducting the risk assessment to the Chief Financial Officer.

The Chief Financial Officer shall:

1. Develop policies and procedures that:
    a. Enable the Council to exercise its authority and responsibility to make informed decisions involving strategic direction, resource allocation, goals and objectives.
    b. Ensure that objectives are met, determine that resources are used effectively, and risks are managed appropriately.

c. Implement control systems to eliminate or reduce risks when implementing City goals and objectives.

2. Monitor and report on the effectiveness of defined controls in managing risks associated with goals and objectives.

3. Establish systems to report and analyze errors in major transaction systems and business processes to identify controls to improve the operation of systems. Examples of monitoring data include corrections to or reissuing payroll checks, utility billing adjustments, employee, customer and vendor complaints regarding payment timing or accuracy and construction contract disputes or audit adjustments.

COSO Category C: Control Activities

Control activities are the actions taken to control risks that threaten the City's ability to achieve its operating, reporting and compliance objectives created by management to reach the Council's strategic goals. Efficient prioritization, design, implementation and maintenance of internal control require new policies and processes for control activities that reduce or eliminate risks that threaten the ability of the City to achieve its objectives and further Council goals. The City's Corrective Action Plan, required by the OMB to address Single Audit control weaknesses, also provides a focus for control development.

After completion of the City risk assessment, the external findings-based control activities will be supplemented with controls that focus on a broader range of risks. A standard approach for developing control activities should be based on policy that complies with ICIF principles and components and eliminates and reduces risk based on reasonable standards and level of effort.

Guideline 1: Development of Controls

Background

Internal controls should be thoughtfully deployed to ensure they are effective and sustainable. Development of controls should be tailored to the City's specific risks, organizational capacity, and available resources. A process should be established that documents reports, systems and procedures and identifies the individuals who operate, monitor or depend on control activities.

Administrative Guideline

1. The primary focus of initial controls development should be implementation of the Administrative Requirements of 2 CFR 200 (2 CFR Chapter I, Chapter II, Part 200, et al. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Final Rule; Federal Register/ Vol. 78, No. 248/Thursday, December 26, 2013/Rules and Regulations, also referred to as "Uniform Guidance or UG"). These grant controls receive priority because many audit findings relate to grant administration and because the Administrative Requirements with the exception of requirements related to procurement, were required by OMB for the City of Oxnard by July 1, 2015, following the effective date of the Uniform Guidance on December 26, 2014. (The deadline for Implementation of procurement requirements was deferred to July 1, 2018).

2. Generally, systems are the highest level of internal control. Financial systems often focus on transaction processing, reporting, managing assets and liabilities and compliance. Because the ICIF is based on integration of controls, a control activity can relate to more than one system, risk, report or process.

3. A map of the Finance Department's major activities should be created by associating business processes and forms/reports with systems. Examples are provided in Table 4 below.

Table 4. Sample Forms and Reports

Business System	Business Process	Forms/Reports
Personnel-related expenditures	Pay type and benefit setup	• Listing of pay type and benefits codes
	Creating employee master files	• Personnel action form • Employment application • Employee setup form (e.g., W-4, health insurance election, deferred compensation, direct deposit)
	Time entry	• Time sheets • Leave requests (e.g., vacation, sick, jury duty)
Accounts payable	Receipt of goods	• Purchase order • Packing slip
	Invoice processing	• Vendor invoice including account coding • Listing of vendor invoices approved for payment
	Vendor payment	• Check/warrant • Warrant register

Business System	Business Process	Forms/Reports
Financial reporting	General ledger accounting	• Chart of accounts • Adjusting journal entries listing • Recurring journal entries listing • Accrual and reversal entries listing • Supporting documentation for journal entries
	Comprehensive Annual Financial Report (CAFR) preparation	• Trial balance reports • Balance sheet • Cash and investments • Capital asset listings • Long-term liabilities schedules • Fund balance reconciliation • Revenue and expenditure budget vs. actual reports • Account year-to-date detail reports
	Compliance with legal requirements	• Schedule of federal awards • State Controllers Office reports (e.g., financial transactions, streets and roads, employee compensation) • CDIAC accountability reports
	Compliance with contractual obligations	• Debt offering statements • Continuing disclosure reports for debt issues

4. Establish internal controls that are documented where transactions change form (e.g., invoice is listed on an accounts payable register for payment) or where approval is obtained (e.g., time sheet is approved by a supervisor).

5. Design internal controls to segregate duties to ensure that custodial (asset custody), recordkeeping (recording), and authorization (approval) functions are performed by different people for each transaction.

6. Development priority should be given to business systems or processes where significant deficiencies or material weaknesses currently exist based on Single Audit and other external consultant audits.

Guideline 2: Future Control Activities

Background

Not all control activities recommended by auditors or consultants are addressed in the ICIF implementing policies or in the 2 CFR 200 Administrative Requirements implementing policies. The City's independent auditors have characterized reported weaknesses affecting

financial reporting as material, significant, non-compliance and best practices. Policies implementing control activities to address recommendations in the findings rely on the auditor's expert analysis for information about the reasons for controls and the purpose of implementing the controls.

Administrative Guideline

1. All persons designing control activities should consider the following factors related to the ICIF to ensure the reasons and purpose associated with implementing the control activity are considered:
    a. Risks addressed by the external finding recommendation or staff proposed control;
    b. Reporting, compliance or operating objectives threatened by the risk;
    c. Materiality – dollar impact of the risk;
    d. Significance – impact on achieving objectives or reaching goals (Different from the Single Audit definition of "significant" that refers to weaknesses not likely to result in material misstatement of financial information but that should be brought to the attention of management);
    e. Likelihood of risk: high, medium, low;
    f. Expected impact of control implementation on risk – elimination, significant reduction, moderate reduction;
    g. Elements from the Control Activity Standards Policy to be used in the proposed control;
    h. COSO ICIF principles to incorporate in the control activity based on the ICIF components to which they relate;
    i. Related control activities that support or are supported by the proposed control;
    j. Reports created or affected by the control;
    k. Compliance or reporting standards related to the control activity;
    l. Complexity, time and cost to implement;
    m. Existing or planned information systems support required to implement; and

n. City positions with responsibility to implement and operate the control activity.

2. Activities designed to address high-priority risks should include more detail about the factors considered in the design. Lower risk activities may use more limited documentation because the detail complicates communication of relatively simple concepts. The reasoning for documentation levels and design choices should be documented. Recommended documentation standard examples include:

    a. *High risk/mission critical* – policy, control design documents, detailed procedures, IT integration, monitoring, large and small group formal training in Finance and other departments, regular meetings;

    b. *Moderate risk* – desk manuals, FAQs and handouts, periodic meetings and small group formal training; monitoring through analytical review and sampling; and

    c. *Low or sensitive* – FAQs and handouts, staff meetings, informal training with monitoring through analytical review or notification of sensitive issues.

3. Recommended monitoring standards include:

    d. *High risk/mission critical* – frequent, (e.g., every time control is applied, multiple reviews required, daily reconciliations, physical inventory, surprise cash audits, analytical review);

    e. *Moderate risk* – Periodic review, exception filters, nonstandard entry classification; and,

    f. *Low or sensitive* – Periodic review, sampling, staff meeting topic, on job training.

4. COSO's ICIF and the GAO's standards require all controls to be implemented through policies. Control activity design precedes preparation of the implementing policy. A control policy may stand alone, may specify other policies that will be designed and implemented, or may implement a more general policy as it applies to a specific business process or report.

    Because policies integrate, they are not necessarily organized in a strict hierarchical fashion. This integration accounts for the ICIF emphasis on people constantly adapting to changing conditions

and new threats by relying on a framework of system components and design principles.

5. Because of the adaptive nature of the system, control activities should be as lean as possible and focused on specific threats. Analysis, planning and communication are essential. Policies should be sufficient to address risks and help employees fulfill their control responsibilities but should not be so complex, individually, to discourage adaptive change.

6. The proposed control activity policy should be developed with a good understanding of the risk associated with the recommended or proposed control. State the important reasons for creating the control and the expected result of implementing the control. That will create the foundation for the control activity design.

7. A control activity proposal should contain the following information in addition to the reasons and purpose:

    a. What activities are required by the policy? (e.g., reconciliation, authority, segregation of duties). (Refer to the Policy on Control Activity Standards for typical building blocks of internal control).

    b. What quality information must be available to complete the activity? Who prepares it?

    c. Who will adopt the policy implementing the control and when?

    d. Who will implement the control and when?

    e. Who will operate the control within and outside of the Finance Department in terms of processing, decision making or report preparation?

    f. How will the control documentation be communicated and to whom?

    g. Who will monitor the control and how?

8. Prepare a draft control activity to correct the deficiency or control the risk with appropriate information identified in the policy. Review the proposed control activity policy with employees who will be responsible for operating it and others affected by the activity; then incorporate appropriate changes.

9. Review the revised control activity policy proposal with the CFO's designee and the manager(s) responsible for supervising persons responsible for operating the control activity and incorporate appropriate changes. Document the review and approval process for the person(s) who will adopt the control activity.

Guideline 3: Administration of New and Restricted Funds

Background

In 2015, the City's internal auditor concluded the City did not have adequate staffing or expertise to ensure that its accounting and reporting systems produce accurate financial reports. The City's consultants and auditors identified material and significant problems in the creation of restricted governmental funds and business-type funds. A major priority of the City Manager and the CFO is to ensure restricted funds are administered in compliance with legal and policy requirements. This will also ensure that funds collected are only expended for the specified purposes for which they were collected (e.g., gas tax revenues only being spent on eligible road infrastructure maintenance and improvements).

Administrative Guideline

1. Responsibility for managing the creation and ongoing operation and maintenance of restricted funds is delegated to the Assistant Chief Financial Officer (ACFO). The Controller and designated staff members shall assist in fulfilling these responsibilities for funds assigned to them by the CFO.

2. Business processes, control activities, reporting responsibilities and compliance standards will be developed for each new fund through work assigned to a Compliance Team formed for that purpose. For existing restricted funds, the CFO and ACFO shall prioritize funds based on the materiality and significance of deficiencies in those funds and shall assign a Compliance Team (e.g., representatives from departments who collect and/or expend the restricted resources) to redesign processes, activities, reporting and compliance to eliminate or mitigate the risks associated with deficiencies. Compliance Teams assigned to this responsibility should be supported by expert advice, if required.

3. The CFO may consider establishing a separate team of employees to correct legacy deficiencies and assist staff assigned to management and maintenance of restricted funds with implementing changes. For larger restricted funds the City

Manager or CFO will consider assignment of permanent administrative staff to assure that operating, reporting and compliance objectives are achieved.

4. Compliance Teams and individuals assigned responsibility for creation or changes for restricted funds shall:
    a. Seek training, conduct research and review relevant agreements, laws and regulations to develop competent knowledge of risks and objectives.
    b. Request assistance with issues that require additional legal advice or information from a subject-matter expert.
5. The team or staff member assigned to create or revise restricted fund processes should:
    a. Consult relevant stakeholders,
    b. Assess organizational capacity to implement and maintain the changes,
    c. Conduct a focused risk assessment,
    d. Design new or revised control activities with basic documentation including references to controlling legal and contractual provisions and fraud exposure,
    e. Develop and communicate a proposed implementation plan and timeline to stakeholders, and
    f. Establish monitoring criteria.
6. New fund and existing fund plans should comply with the ICIF concepts and incorporate the relevant principles to the extent feasible.

Guideline 4: Non-Standard Issues Related to Accounting, Compliance and Reporting Requirements

Background

In the Single Audit report for fiscal year ending 2015, and subsequent reports, the independent auditors noted that the City did not have qualified staff, or a process to secure needed expertise to analyze non-standard items in terms of accounting, compliance and reporting requirements. The American Institute of Certified Public Accountants (AICPA) indicates that non-standard items are the source of a large share of the causes of material misstatements of financial statements. Further,

the AICPA recognizes that non-standard journal entries are a significant method for concealing instances of fraud and abuse. Non-standard entries dealing with unusual or highly technical matters also can become the source of errors that threaten the Finance Department's reporting objective of providing timely, accurate and useful information.

When employees do not have adequate training, competence or oversight their accounting decisions can lead to inaccurate financial reporting or non-compliance with legal requirements. Many new Finance Department employees have joined the City and do not yet have extensive experience or training in municipal accounting, regulations, financial policy and operation.

Administrative Guideline:

1. Compliance Teams will be convened to perform rapid evaluation of material or significant non-standard items, including proposed journal entries for new, infrequent and unusual transactions, proposed management overrides of internal control, and identified risks and standards requiring adaptation of financial reporting or the ICIF. Material refers to the dollar amount of the financial transaction or system and significance refers to the potential impact of the matter on the City's ability to reach its reporting or compliance goals. Projects can include new or rare transactions, systems to manage transactions and reports and projects to improve or correct existing practices that do not help achieve financial reporting or compliance objectives.

2. Compliance Team members will be responsible for specific issues and will be appointed by the CFO based on knowledge and experience. Staff from outside the Finance Department may participate as team members. It is expected that at least three team members will convene to deal with issues referred to a Compliance Team.

   The CFO may appoint a Finance Department Compliance Team coordinator to make assignments, monitor progress and provide continuing education for employees assigned to teams. Specific items will be assigned to teams of at least three members selected based on the knowledge and skills required to address the item. Team assignments should be relatively short, lasting the duration of the project to analyze, recommend, and implement improvements.

3. Items requiring Compliance Team analysis and recommendation may be referred to the CFO or ACFO by the City Manager or City Attorney, employees within or outside of the Finance Department, and by auditors or consultants. Some matters relating to operational objectives will be referred to the City Manager's Office or City Attorney for evaluation or action.

4. The team may request advice from the City Attorney's Office in its evaluation of reporting and control issues related to non-standard items. Items that are recurring, immaterial, insignificant or unrelated to financial reporting or controls should be handled in the normal course of business.

5. Team analyses may be referred to the internal auditor for prioritization in their audit program. Teams may be formed to deal with material or significant items reported on the hotline at the request of the internal auditor.

6. For items that require involvement of several individuals, the CFO will appoint a team coordinator who will schedule team meetings. Meetings should focus on sharing information and developing standards and procedures for team operation. As the program develops, team assignments will support the succession and staffing contingency policy by providing broad exposure and experience for employees.

7. Employees who participate as team members will receive training and briefings to keep them abreast of developments in financial accounting standards and to build skills in research, analysis and option development. Other topics will relate to significant legal changes and the ongoing implementation of the ICIF.

8. When addressing non-standard items, team members will have the following responsibilities:

    a. Determine and describe the risk, materiality or significance of the item.

    b. Conduct research to understand the financial reporting, internal control and legal compliance issues associated with the item.

    c. Analyze the fraud risks presented by the item.

    d. Document research, analysis and materiality and significance findings in a brief memo.

e. Protect confidential information.

f. Design and document controls for future management of the risks associated with the item, if appropriate.

g. Recommend appropriate actions related to the item. Actions can include rejection, revision, or approval by a person authorized to take action.

h. Document the reasons for management override of internal controls and the measures taken to minimize the risk of fraud or abuse associated with the override.

i. Prepare a summary of team activities for periodic internal control system reviews with the City Manager and Senior Leadership Team.

COSO Category D: Information and Communication

In 2015, the City's independent auditors identified material and significant weaknesses in the internal controls, including lack of documentation, communication and training. Information and ongoing, effective communication across the City organization is critical to be able to adapt to changes in law, implement the ICIF and appropriate internal controls, allocate financial resources, and make decisions about the City's long-term financial sustainability. The Council policies establish expectations regarding implementation of the ICIF and timely and accurate financial management information from City management.

An information system is the set of activities involving people, processes, data and/or technology that enable the City to obtain, generate, use and communicate transactions and information to maintain accountability and measure and review performance or progress toward the achievement of objectives.

A communication system consists of methods and records established to identify, capture and exchange useful information. Information is useful when it is timely, sufficiently detailed, and appropriate to the user.

Communication is not an isolated, internal control component. It affects every aspect of an organization's operations and helps support the system of internal control. The feedback from a communication network can help managers evaluate how well the various components of internal control are working.

Guideline 1: Developing Effective Information and Communication Activities and Channels

Background

Communication and understanding within and outside the Finance Department was weak in prior years, resulting in misunderstandings and distrust that reduced the effectiveness of internal controls. The Council polices establish expectations about communication and management information for implementation of the ICIF which must rely on open, honest and effective information and communication activities.

Administrative Guideline

1. Initial implementation of information and communication systems should include the following items:
    a. Reporting and compliance objectives related to financial reporting;
    b. Financial systems;
    c. Business processes;
    d. Financial reports;
    e. Financial and non-financial compliance reports;
    f. Rosters of employees with full or partial responsibility for operation and control of systems, processes or reports within and outside the Finance Department; and
    g. Rosters of employees who depend on financial systems and processes to manage operations.
2. Management information is expected to be timely, accurate and useful. It should be consistent with the resources allocated by the Council. Management should establish information and communication channels that:
    a. Provide timely, accurate and useful information,
    b. Are tailored to individual needs,
    c. Inform employees of their duties and responsibilities and enable them to carry them out effectively,
    d. Enable the reporting of sensitive matters,
    e. Enable employees to provide suggestions for improvement,

f. Convey the importance of internal control responsibilities, and

g. Enable communication with external parties.

Guideline 2: Expected Compliance with Information and Communication Principles and Activities

Background

The Council policies establish standards and expectations for the information and communication component of the ICIF that emphasize competence, ethics, and accountability that require courtesy and respect consistent with the City's Personnel Rules and Regulations. Open, clear and direct communication within the organization will encourage the identification and resolution of problems and facilitate discussions of accountability and performance.

The City Manager expects all managers and employees to take internal control responsibilities seriously and work collaboratively to build a strong system of internal control that is appropriate for the risks affecting the City and the resources available. This includes complying with the expectations to share necessary and appropriate information within the department, the organization, with elected officials (through appropriate channels), and with the public.

Administrative Guideline

1. All managers shall provide relevant, quality information and communication that enable employees to understand and effectively execute their internal control responsibilities.

2. Investment in information and communication should be prioritized based on risk materiality and significance and communication products and processes should be designed to be adjusted and improved with reasonable effort. In some cases, detailed procedures are warranted; in others, FAQs, desk manuals, information shared in meetings or training will assure controls are consistently applied in practice.

3. All managers are expected to support the CFO in developing and analyzing information and in reviewing and documenting instances where decisions were made to override internal controls. Support of the CFO for promptly addressing findings of internal and external auditors is also expected.

4. Senior managers are expected to be familiar with policies adopted by the Council, City Manager and Chief Financial Officer to implement the ICIF and participate in periodic discussions or evaluations related to internal control.

5. All managers shall take responsibility to understand the controls and the risks being managed, to improve control integration and operation of controls, and to assure their consistent application.

COSO Category E: Monitoring

In 2015, the City's independent auditors and consultants identified many weaknesses in internal control that can prevent: 1) production of relevant, quality financial information; 2) compliance with laws, regulations and policies; and, 3) effective operations. A fundamental component of the ICIF is effective monitoring of the internal control process and taking actions to correct deficiencies and increase effectiveness of control activities.

Guideline 1: Monitoring Responsibilities and Actions

Background

Monitoring controls are used by management to assess the effectiveness of internal controls over time. The SCO's Guidelines for Internal Control – Local Government Agencies identifies several actions that provide effective monitoring of controls. Other implementing policies of the City contain monitoring activities consistent with SCO recommendations that integrate with this policy. Specific monitoring actions need to be enacted to ensure that internal controls remain effective and adapt to changes affecting the City.

Administrative Guideline

1. Internal control monitoring is the responsibility of all City employees. Managers and employees are expected to support and cooperate with the CFO and their staff who have leadership responsibility for maintaining the ICIF.

2. Controls associated with significant and material threats or risks should be monitored at the transaction level so actions that depend on approvals are within the scope of duties of trained and knowledgeable staff, that segregation of duties eliminates or minimizes conflicts of interest, and that actions comply with relevant legal requirements, contract provisions or policies.

3. Monitoring activities for systems where individual transactions are not generally material should concentrate on analytical reviews like comparing budget to actual for revenues and expenses, identifying residual balances in clearing accounts, or reviewing fund deficit cash balances and reserves. In addition, review of the timely completion of reconciliations and postings that can have a material effect on financial reporting should be routine and ongoing. Barriers to timely completion of control processes for payroll, utility billing, cash and investments, accounts payable, budget administration, debt, and capital assets should be addressed promptly.

4. Staff with internal control responsibilities shall meet regularly to discuss proper execution of controls and problems encountered with compliance or management override of controls. In recognition of the fact that major systems are managed in administrative and operating departments, meetings should include representatives of all departments that have internal control responsibilities for systems or processes.

5. For major transaction systems, monitoring activities should take advantage of information provided by those most affected by the operation of the system. Feedback about paychecks, utility bills, vendor payments, development fees and assessments or special taxes should be collected and analyzed to identify opportunities to improve controls.

6. When outside vendors process material transactions or hold City funds in trust (e.g., maintenance contractors, employee benefit providers, third-party claims administrators), responsible managers should have a high level of interaction with vendor personnel. The fiduciary responsibilities of the City and the vendor should be clearly understood by both parties. In some instances, vendors should provide audit reports or other documentation relating to the adequacy of internal controls over transactions.

7. Priority for investment in the processes, activities and changes relating to monitoring the City's internal control should be based on the following criteria:
    a. Materiality,
    b. Impact on accomplishing objectives,
    c. Likelihood an event will occur,
    d. Assurance of legal compliance,

e. Building and maintaining confidence in integrity and reliability, and
f. Prevention or detection of fraud.

8. For high priority items, highly trained staff analysis on a periodic basis with documented communication is appropriate. Lower priority issues can be monitored through regular meetings and less formal documentation. Other monitoring investments should be focused on continuous improvement and training. Routine items with low risk can be managed through the day-to-day interaction among supervisors and employees and between employees. Discussions of fraud risk and regular training are important. Most fraud detection results from observations by the perpetrator's co-workers.

CITY OF OXNARD
INTERNAL CONTROL – INTEGRATED FRAMEWORK

Presentation to Finance & Governance Committee

Christine Williams, Senior Manager, Internal Controls

July 14, 2020

RECOMMENDATION

That the Finance & Governance Committee receive a presentation on the Internal Control – Integrated Framework, provide feedback on such framework and associated proposed policies, and give authorization for staff to present the item to City Council to adopt the following four framework implementing policies and approve the City of Oxnard Internal Control – Integrated Framework.

AGENDA

- What is Internal Control?
- Committee of Sponsoring Organizations (COSO)
- Framework Components
- City of Oxnard Internal Control – Integrated Framework (ICIF)
- City Council and Management Guidelines
- Next Steps
- Questions

WHAT IS INTERNAL CONTROL?

Internal controls are mechanisms, rules and procedures implemented by an organization to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud. Internal controls can also help improve operational efficiency by improving the accuracy and timeliness of financial reporting.

INTERNAL CONTROL

Build and sustain a highly ***competent***, ***ethical*** and ***accountable*** organization within a strong internal control environment.

COSO COMMITTEE OF SPONSORING ORGANIZATIONS OF THE TREADWAY COMMISSION

Committee of Sponsoring Organizations of the Treadway Commission (COSO)

American Accounting Association (AAA)
American Institute of Certified Public Accountants (AICPA)
Financial Executives International (FEI)
Institute of Management Accountants (IMA)
Institute of Internal Auditors (IIA)

GOVERNMENTAL CHALLENGES

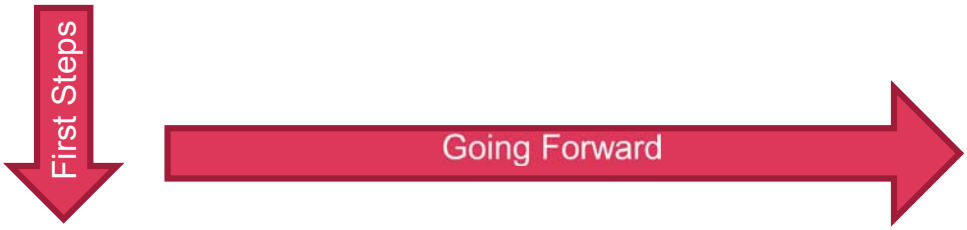
Environmental changes...	*...have driven Framework updates*
Expectations for governance oversight	
Globalization of markets and operations	
Changes and greater complexity in business	
Demands and complexities in laws, rules, regulations, and standards	
Expectations for competencies and accountabilities	
Use of, and reliance on, evolving technologies	
Expectations relating to preventing and detecting fraud	

7

FIVE FRAMEWORK COMPONENTS

- **Control Environment**
- **Risk Assessment**
- **Control Activities**
- **Information and Communication**
- **Monitoring**

FRAMEWORK COMPONENTS AND GUIDELINES



	Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
Policy Level (9)	City Council Policies (5)	City Council Policies (1)	City Council Policies (1)	City Council Policies (1)	City Council Policies (1)
Organization Level (16)	Management Guidelines (8)	Management Guidelines (1)	Management Guidelines (4)	Management Guidelines (2)	Management Guidelines (1)

NINE ICIF RECOMMENDED POLICIES

A. Control Environment

1. Adoption of Internal Control – Integrated Framework
2. Adoption of Internal Control Oversight Responsibilities
3. Finance and Governance Committee Duties and Responsibilities
4. Assignment of Authority and Responsibility for Achieving Operational, Reporting and Compliance Objectives
5. Performance Evaluations of City Manager and City Attorney (already in place)

NINE ICIF RECOMMENDED POLICIES

B. Risk

6. City Council's Risk Assessment Responsibilities

C. Control Activities

7. Development and Implementation of Internal Controls

D. Information and Communication

8. Commitment to Transparent and Complete Information and Communication

E. Monitoring

9. Creation of a Monitoring System

SIXTEEN ICIF MANAGEMENT GUIDELINES

A. Control Environment:

1. Implementation
2. City Council and ICIF Oversight
3. Progress Reporting
4. Integrity and Ethics
5. Performance Expectations and Appraisal
6. Training
7. Succession and Turnover Planning
8. Adequate Staffing

SIXTEEN ICIF MANAGEMENT GUIDELINES (CONT'D)

B. Risk Assessment:

1. Risk Assessment Responsibilities
   - Identify risks
   - Risk tolerance and appetite

C. Control Activities:

1. Development of Controls
2. Future Control Activities
3. Administration of New and Restricted Funds
4. Non-Standard Issues Related to Accounting, Compliance and Reporting requirements

SIXTEEN ICIF MANAGEMENT GUIDELINES (CONT'D)

D. Information and Communication:

1. Developing Effective Information and Communication Activities and Channels
2. Expected Compliance with Information and Communication Principles and Activities

E. Monitoring:

1. Responsibilities and Actions
   - ICIF Review
   - Audit Committee
   - Auditors and consultants
   - Hotline

ICIF NEXT STEPS

Time Line	Task
September 1, 2020 City Council Meeting	Control Environment Component: City Council Policies and ICIF
December 8, 2020 Finance and Governance Committee	Risk Assessment Component: City Council Policy
January 5, 2021 City Council Meeting	Risk Assessment Component: City Council Policy

RECOMMENDATION

That the Finance & Governance Committee receive a presentation on the Internal Control – Integrated Framework, provide feedback on such framework and associated proposed policies, and give authorization for staff to present the item to City Council to adopt the following four framework implementing policies and approve the City of Oxnard Internal Control – Integrated Framework.

Questions

CITY OF OXNARD CALIFORNIA

FINANCE AND GOVERNANCE COMMITTEE AGENDA REPORT

REPORTS
AGENDA ITEM NO. D.2

DATE: July 14, 2020

TO: Finance & Governance Committee

FROM: Keith Brooks, Chief Information Officer, (805) 385-7597, keith.brooks@oxnard.org

SUBJECT: Response to Grand Jury Report, "Cybersecurity Strategies for Cities in Ventura County." (5/5/5)

RECOMMENDATION

That the Finance and Governance Committee recommend the City Council authorizes the Mayor, the City Manager, and the Chief Information Officer to respond on behalf of the City Council, to the Grand Jury Report titled "Cybersecurity Strategies for Cities in Ventura County" dated May 21, 2020, in the form included as the attachment titled "Response To Grand Jury Report Form."

BACKGROUND

On May 21, 2020, the Ventura County Civil Grand Jury ("Grand Jury") delivered a Report on Cybersecurity Strategies for Cities in Ventura County ("County"). The City of Oxnard ("City") is required to respond to the Grand Jury's conclusions and recommendations. Those conclusions and recommendations are listed in the tables below, along with the City's responses:

Number	Conclusions	Agree	Disagree	N/A
C-01	While the Grand Jury recognizes each City is taking steps to implement cybersecurity and to defend against cyberattacks, it concludes there is no perfect solution to cybersecurity or defense against cyberattacks.	X		
C-02	The Grand Jury concluded eight Cities are currently using suboptimal web addresses for their websites.	X		
C-03	The Grand Jury concluded generally Cities are not utilizing free federal and discounted federally aligned resources available to Cities to bolster their cybersecurity defenses.	X		
C-04	The Grand Jury concluded cybersecurity staffing could be improved with more effective recruiting and staff retention practices.	X		

C-05	The Grand Jury concluded Cities should manage cyber risks associated with vendors by requiring they provide annual documentation regarding cybersecurity insurance and cybersecurity practices.	X		
C-06	The Grand Jury concluded some Cities do not clearly identify expenditures regarding information technology or cybersecurity in their budgets.	X		
C-07	The Grand Jury concluded all Cities would benefit from comprehensive cyber incident response, recovery, and business continuity plans.	X		

Recommendations:

Number	Recommendations	Agree	Disagree	N/A
R-01	The Grand Jury recommends Cities establish secure web addresses through the use of HTTPS or other such protocols. (C-02)	X		
R-02	The Grand Jury recommends Cities establish trustworthy web addresses by following the California Department of Technology domain name taxonomy guidance. (C-02)	X		
R-03	The Grand Jury recommends Cities utilize free federal and federally aligned cybersecurity services as set forth in Appendix 02 to supplement internal staff and/or replace vendor services whenever possible. (C-03)	X		
R-04	The Grand Jury recommends Cities' IT staff subscribe to CISA updates online. (C-03)	X		
R-05	The Grand Jury recommends Cities take advantage of discounted services and cooperative purchasing programs whenever possible. (C-03)	X		
R-06	The Grand Jury recommends Cities develop personnel cost-saving opportunities and create a cybersecurity talent pool by recruiting interns or graduating students using: (C-04) • The Scholarships for Service program described in Appendix 02 • Local education institutions (high school, community college, private college and state university)	X		
R-07	The Grand Jury recommends Cities maintain good vendor management by: (C-03, C-05) • Obtaining CISA assistance to conduct risk management assessments on all third-party vendors	X		

	that have access to any confidential data or that interact with City networks and systems • Requiring all vendors to provide cybersecurity documentation. As part of their ongoing third-party due diligence, Cities should evaluate vendors for compliance and risk on an annual basis • Requiring IT vendors to obtain cybersecurity insurance.			
R-08	The Grand Jury recommends Cities clearly identify expenses for their Information Services (Technology) Departments in their approved budgets. (C-06)	X		
R-09	The Grand Jury recommends Cities develop and test cyber incident response, recovery, and business continuity plans. (C-07)	X		
R-10	The Grand Jury recommends Cities implement the best practices for teleworking as published by the California CyberSecurity Integration Center. (C-08)	X		

Recommendations R-01, R-03, R-04, R-05, R-06, R-07 and R-08 above have already been implemented. Recommendation R-09 will be implemented this fall. Recommendation R-11 will be implemented this winter. Regarding the City's website, the City agrees generally with C-02 and R-02, but this will require further analysis in the coming year. Regarding teleworking, the City currently has no such policy; staff agrees that best practices are appropriate as stated in recommendation R-10, and should the City implement such a policy, then we would follow those practices.

The entire Grand Jury report is presented as the attachment titled “Grand Jury Report - Cybersecurity Strategies For Cities in Ventura County” and the City's response is presented as the attachment titled “Response To Grand Jury Report Form.”

With regard to FA-20 in the Report, the City’s contract with Google, Inc., for the G Suite Enterprise communication and collaboration platform for cloud based email, calendar, contacts, document collaboration and unlimited storage, adheres to the exacting federal security standards for cloud computing security to achieve FedRAMP (Federal Risk and Authorization Management Program) certification.

With regard to FA-25 in the Report, the City does require cyber liability insurance for our technology vendors. The City is mindful of the need not to disclose vulnerabilities of, or otherwise increase the potential for an attack on, an information technology system. Therefore, this report does not detail any specific cybersecurity vulnerabilities that may have been discovered during the Grand Jury’s investigation or the specifics of cyber liability coverage.

STRATEGIC PRIORITIES

This agenda item is a routine operational item or does not relate to the four strategic plans adopted by City Council on May 17, 2016.

FINANCIAL IMPACT

This is an informational report and has no financial impact.

Prepared by: Keith Brooks, Chief Information Officer, Ken Austin, Systems Administrator

ATTACHMENTS

1. Response to Grand Jury Report Form
2. Grand Jury Report - Cybersecurity Strategies For Cities in Ventura County
3. Presentation - Response to Grand Jury report - Cybersecurity Strategies for Cities in Ventura County

Grand Jury
800 South Victoria Avenue
Ventura, CA 93009
(805) 477-1600
Fax: (805) 658-4523
grandjury.countyofventura.org

county of ventura

Response to Grand Jury Report Form

Report Title: Cybersecurity Strategies for Cities in Ventura County

Report Date: June 25, 2020

Response by: Keith Brooks Title: Chief Information Officer

FINDINGS / CONCLUSIONS

I (we) agree with the findings/conclusions numbered: C-01 - C-08 and R-01 - R-11

I (we) disagree wholly or partially with the Findings / Conclusions numbered: N/A
(Attach a statement specifying any portions of the Findings/Conclusions that are disputed; include an explanation of the reasons.)

RECOMMENDATIONS

- Recommendations numbered R-01, R-03, R-04, R-05, R-06, R-07 and R-08 have been implemented.
  (Attach a summary describing the implemented actions and date completed.)

- Recommendations number R-02, R-09 and R-11 have not yet been implemented but will be implemented in the future. The City agrees generally with C-02 and R-02, but this will require further analysis in the coming year.
  (R-09 will be implemented by 9/1/20. R-11 will be implemented by 12/31/20)

- Recommendation numbered R-10 requires further analysis.
  (We agree that best practices are appropriate as stated in recommendation R-10, and should the City implement such a policy, then we would follow those practices.)

Date: 6/25/2020 Signed: 

Number of pages attached: 6

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Attachments/Responses:

- R-01 **Attachment** - Example of Secure Web-Site Protocols (HTTPS). Two examples provided.
- R-02 Response - The City agrees generally with C-02 and R-02, but this will require further analysis in the coming year.
- R-03 **Attachment** - Email verifying Federal Cybersecurity program signup and a screenshot of the program.
- R-04 **Attachment** - Email verifying subscription to Cybersecurity Infrastructure Security Agency.
- R-05 Response - The City leverages discounted services and cooperative purchasing programs whenever possible.
- R-06 **Attachment** - Signed MOU with VCCCD for internships.
- R-07 **Attachment and Response** - NIST (National Institute of Standards and Technology) compliant Cybersecurity Framework for CentralSquare Enterprise Resource Planning system (Attachment). CISA (Cybersecurity and Infrastructure Security Agency) assistance in progress. The City does require cyber liability insurance for our technology vendors. The City is mindful of the need not to disclose vulnerabilities of, or otherwise increase the potential for an attack on, an information technology system. Therefore, this report does not detail any specific cybersecurity vulnerabilities that may have been discovered during the Grand Jury's investigation or the specifics of cyber liability coverage.
- R-08 Response - IT expenses are clearly defined in the City Budget (beginning on Page 135) (https://www.oxnard.org/wp-content/uploads/2020/06/FINANCE_proposed_budget_book_20_21.pdf)
- R-09 Response - The Cyber Incident, Response, Recovery, Business Continuity plans will be implemented this fall.
- R-10 Response - We agree that best practices are appropriate as stated in recommendation R-10.
- R-11 Response - Recommendation R-11 will be implemented this winter.

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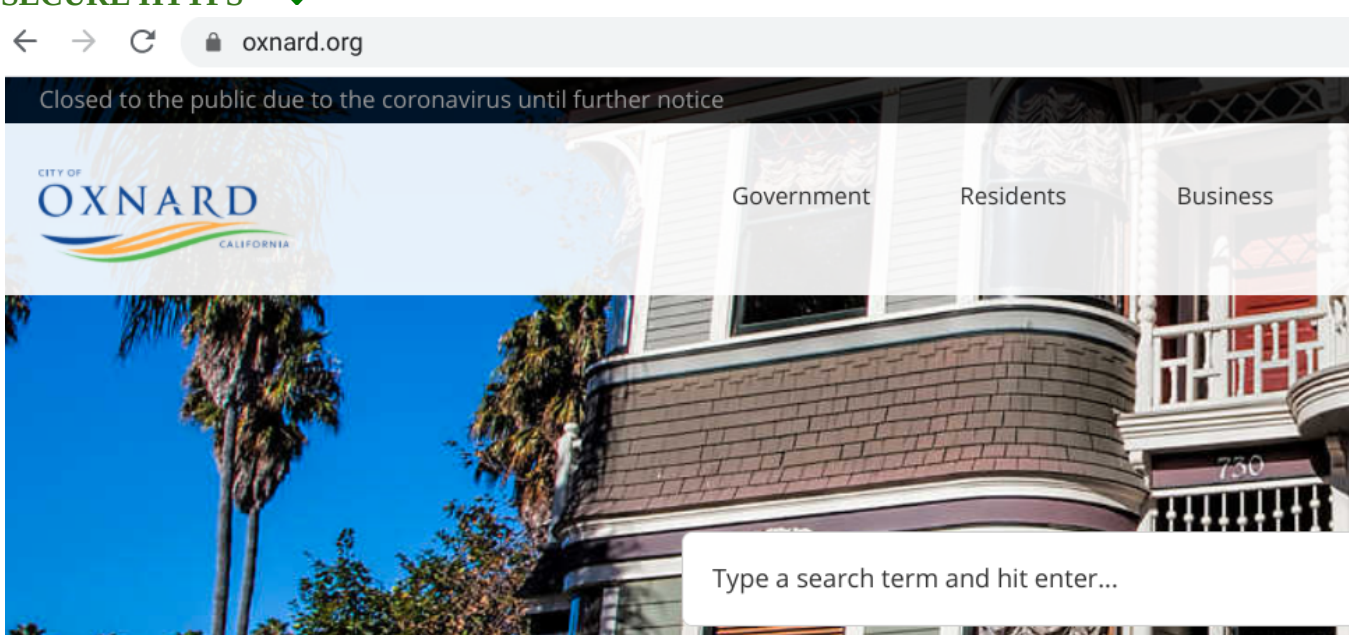
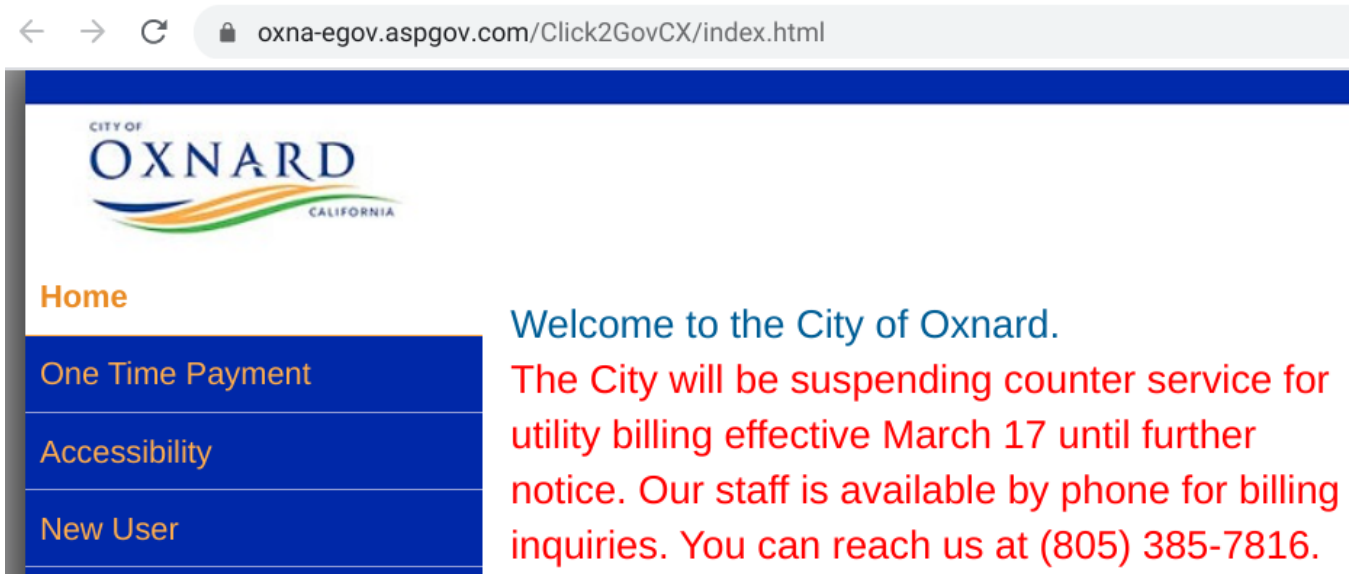
R-01 **Attachment** - Examples of Secure Web-Site Protocols (HTTPS) in use on the City of Oxnard website and online payment system.

SECURE HTTPS



SECURE HTTPS



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R-03 **Attachment** - Email verifying Federal Cybersecurity program signup and a screenshot of the program.

6/16/2020 City of Oxnard Mail - Welcome New User (Confirmation Required)

CITY OF OXNARD CALIFORNIA

Austin, Ken <ken.austin@oxnard.org>

Welcome New User (Confirmation Required)

1 message

U.S. Department of Homeland Security
<departmentofhomelandsecurity@messages.dhs.gov>
To: ken.austin@oxnard.org

Tue, Jun 16, 2020 at 2:57 PM

Important:

You have subscribed to updates from U.S. Department of Homeland Security. For security reasons it is required that you confirm your request now by following this link:

Confirm Sign-up to U.S. Department of Homeland Security Updates Now.

If this account was created without your knowledge or you otherwise do not wish to keep it, no action is required. Unconfirmed accounts will be removed automatically.

If you are concerned about preventing unauthorized use of your account, please add a password to your U.S. Department of Homeland Security subscription preferences.

Update your subscriptions, modify your password or e-mail address, or stop subscriptions at any time on your Subscriber Preferences Page. You will need to use your e-mail address to log in. If you have questions or problems with the subscription service, please contact subscriberhelp.govdelivery.com.

This service is provided to you at no charge by the U.S. Department of Homeland Security.

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R-04 **Attachment** - Email verifying subscription to Cybersecurity Infrastructure Security Agency.

CITY OF OXNARD CALIFORNIA

Austin, Ken <ken.austin@oxnard.org>

NCCIC RFI number INC000010293069
1 message

soc@us-cert.gov <soc@us-cert.gov> Mon, Jun 8, 2020 at 4:28 AM
To: ken.austin@oxnard.org
Cc: soc@us-cert.gov

Sir / Maam,

The CISA Service Desk would like to follow up with you to ensure that you received all the requested NCATS services information forms. If you have received all the requested forms then please disregard this message. Please feel free to contact ncats_info@hq.dhs.gov for a status update on your submitted application or any questions regarding NCATS services.

Respectfully,

CISA Service Desk
Cybersecurity and Infrastructure Security Agency (CISA)
CISA Integrated Operations Coordination Center (CIOCC)
Unclassified Phone: 888.282.0870
Unclassified Email: cisaservicedesk@cisa.dhs.gov / soc@us-cert.gov
JWICS/C-LAN: ciocccustomerservice@dhs.ic.gov

RFI contents follows:

INC000010293069 submitted by ken.austin@oxnard.org on 5/28/2020 1:22:41 PM

Status: Resolved

Grand Jury
800 South Victoria Avenue
Ventura, CA 93009
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grandjury.countyofventura.org

county of ventura

R-06 **Attachment** - Screenshot of signed MOU with VCCCD for internships.

Agreement No. 7722-16-IT

MEMORANDUM OF UNDERSTANDING BETWEEN

Ventura County Community College District – Oxnard College

AND

City of Oxnard – Information Technology Department

This Memorandum of Understanding, referred to as the "Agreement," is entered into between Ventura County Community College District - Oxnard College referred to as the "District", and City of Oxnard – IT Dept. referred to as the "Facility."

This agreement pertains to an Internship Program at the Facility, wherein students in Computer Networking/IT will obtain IT work experience under the supervision of City of Oxnard IT personnel, as part of their cooperative work experience training. Students in this internship Program may be referred to as "Interns" or "Trainees", as suits their level of training and experience.

WHEREAS, the Facility has work experience training opportunities available in Information Technology; and

WHEREAS, work experience is an elective of the Institution's Computer Networking/IT curriculum; and

WHEREAS, the District desires the cooperation of the Facility in the implementation of the cooperative work experience phase of its Computer Networking/IT curriculum; and

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R-07 **Attachment and Response** - Screenshot of National Institute of Standards and Technology (NIST) compliant Cybersecurity Framework document implemented by our Enterprise Resource Planning vendor, CentralSquare.

Notes: CISA (Cybersecurity and Infrastructure Security Agency) assistance in process as recommended. Cyber Liability insurance is secured with all tech related contracts.

CENTRALSQUARE TECHNOLOGIES

Cybersecurity Program Overview

The CentralSquare Cybersecurity Program implements a series of comprehensive physical and logical controls that align with the NIST Cyber Security Framework and standards to provide a secure, layered defense for all hosted information. CentralSquare maintains annual Payment Card Industry (PCI) and Statement on Standards for Attestation Engagements (SSAE18) compliance through a series of ongoing assessments and security testing performed by a PCI Qualified Security Assessor and AICPA auditor. Adherence to these standards ensures all controls are met specific to access, transmission, processing, and storage of data.

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county of ventura

May 21, 2020

Confidential

Tim Flynn, Mayor
City Council, City of Oxnard
300 West 3rd Street
Oxnard, CA 93030

Dear Mayor Flynn:

The Ventura County Grand Jury has completed the attached report titled *Cybersecurity Strategies for Cities in Ventura County*. This copy of the report is being provided to you two days in advance of its public release, as required by California Penal Code §933.05 (f), which states:

> *A grand jury shall provide to the affected agency a copy of the portion of the grand jury report relating to that person or entity two working days prior to its public release and after the approval of the presiding judge. No officer, agency, department, or governing body of a public agency shall disclose any contents of the report prior to the public release of the final report.*

Please check the last page of text of the report for the timing of your response, if any, as required by the Penal Code. Section 933.05 of the Penal Code is attached for your reference. Also attached is a form for your responses to Grand Jury findings, conclusions and recommendations.

Please keep in mind that this report must be kept confidential until its public release by the Grand Jury.

Respectfully,

Anida Margolis, Foreperson
2019-2020 Ventura County Grand Jury

2019 - 2020
Ventura County Grand Jury

Final Report

Cybersecurity Strategies for Cities in Ventura County

April 17, 2020

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Cybersecurity Strategies for Cities in Ventura County

Summary

During 2019 targeted cyberattacks on local governments increased across the nation. Half resulted in ransomware demands. As the reports of these attacks on cities unfolded, it became clear that better preparation could have assisted those cities to avoid major and costly data breaches.

Due to the challenges of limited budgets, increasing cybersecurity attacks, the digital revolution and a competitive recruiting environment, cities would benefit from free or low-cost federal government backed assistance to defend against these challenges.

Within Ventura County (County) there are 10 incorporated cities (Cities). The 2019-2020 Ventura County Grand Jury (Grand Jury) investigated cybersecurity strategies of the Cities to assess the degree each City was prepared to defend against data breaches and ransomware and identify opportunities to implement improvements. The Grand Jury is mindful of the need not to disclose vulnerabilities of, or otherwise increase the potential for an attack on, an information technology system of a City. Therefore, this report does not detail any specific cybersecurity vulnerabilities that may have been discovered during the Grand Jury's investigation.

Since each City has varying circumstances, resources and readiness, the Grand Jury recognizes there is no perfect solution to cybersecurity or defense against cyberattacks. The Grand Jury recommends the following measures be adopted to bolster the Cities' cybersecurity and potentially decrease cybersecurity expenditures:

- Implement trustworthy website addresses
- Use free federal services for cyber risk assessments, cybersecurity evaluations, incident assistance coordination and cyber exercises/training
- Use cooperative group purchase programs
- Partner with local educational institutions and federal programs to recruit cybersecurity interns or graduating students
- Require cyber liability insurance of the Cities' IT vendors
- Develop and test cyber incident response, disaster recovery and business continuity plans
- Implement federal cybersecurity best practices
- Implement the California Cyber Security Integration Guidance for Teleworkers

While the Grand Jury investigation focused on the Cities, it suggests that similar strategies be considered by the County government and its agencies as well as independent districts. These include libraries, community colleges, county hospitals, schools and harbor, airport and water districts.

Background

Recent national and local news reporting alerted the Grand Jury to cities across the United States falling victim to hacking attacks with increasing frequency. Often attackers used malware to block access to a city's computer systems and demanded payment to unblock them. (Ref-01)

Cyberattacks

Attackers often target small organizations that have few resources to defend themselves. This can apply to cities, school districts, libraries, water districts, harbors and airports. (Ref-02, Ref-03) In 2019 at least 140 local government agencies nationwide were hit by ransomware. (Ref-04)

One published study reported more than 50 ransomware attacks against cities between January and June of 2019. Half of the victims were cities with fewer than 50,000 residents. (Ref-01) Cyberattacks against cities increased during the latter half of the year. In December alone malware attacks resulted in disruption of essential services in the cities of Pensacola, Florida; New Orleans, Louisiana; Galt, California; and St. Lucie, Florida. (Ref-05)

Nationally, 44% of local governments reported that they experienced cyberattacks on an hourly or daily basis. However, 28% of local governments did not know how often they were attacked, 41% did not know how often they were breached and 54% did not catalog or count attacks. (Ref-02)

Cities and attackers are in a never-ending game of cat and mouse as malware techniques constantly change to evade defenses.

- As local governments increasingly back-up electronic files to defend against ransomware, more attacks involve Trojan horse malware. Trojan horse malware lies dormant on networks and sets itself up to cause as much damage as possible when the attack is triggered. The latent attack often destroys the back-ups along with the targeted data, requiring IT personnel to rebuild their systems.
- For some attackers, the Trojan horse attack is used as a diversionary tactic. The malware enters a victim's network, remaining undetected for weeks, while secretly stealing data and information. Then, the malware launches a ransomware attack to distract incident response teams regarding the attackers other activities. (Ref-06)

Attackers are expanding their targets to include the managed service providers that many smaller communities use to supply their technology needs. (Ref-07)

In 2017 and 2018, an online bill payment services vendor for two Cities was compromised by an outside attacker using malware. As a result, credit card information was stolen and used for fraudulent charges. (Ref-08)

Some attackers target electronic devices directly, infecting USB drives during production. When users buy the infected products and plug them into their computers, malware is automatically installed.

If a person can physically access a computer, they may use their own USB drive to steal information directly from that computer. Another security risk related to the use of USB drives is they are easily lost or stolen. If the information on the drive was not encrypted, anyone in possession of the USB drive would have access to the data on it. (Ref-09)

Costs of Cyberattacks

Costs of cyberattacks to victimized cities arise in numerous ways: operational downtime to government services (e.g. police, emergency response, fire and tax collection), citizen frustration with lack of services and financial impact. (Ref-10)

With no options left for recovery, some victimized public entities resorted to paying the attackers. The largest known single payout in a ransomware attack in 2019 was by the city of Riviera Beach, Florida. Officials approved a $600,000 payment in Bitcoins to an attacker who seized control of its computers. (Ref-04)

In addition to ransom, there can be significant recovery costs. In just one example, Pensacola, Florida was hit with a ransomware attack in early December 2019. Although most of the data was quickly recovered, fearing a Trojan horse malware, city officials paid a professional services firm $140,000 to assess how the attack occurred, whether malware remained in the city's network and if data was compromised during the incident. (Ref-11)

As insurance companies for local governments pay ransom demands, attacker ransomware demand amounts are increasing. Higher insurance premiums are expected to follow. (Ref-12)

Local taxpayers are concerned. An IBM Security Study in 2019 found that a majority of polled taxpayers throughout the United States see ransomware as a threat to their personal data and their city's data. At the same time, nearly 60% of U.S. citizens surveyed are against their local governments using tax dollars to pay ransoms. (Ref-13)

Cyber Defenses

Appendix-04 to this report itemizes federal government recommendations for preventative measures to protect local government computer networks from falling victim to a malware infection. The Federal Government also recommends taking preventative measures for handling USB drives. (Ref-09)

Cyber Risk Management

Many local government agencies operate in a server environment. As they seek to improve government functions by using state-of-the-art platforms and tools such as cloud computing, mobile devices and big data initiatives, there can be increased exposure to attacks and additional public privacy risks. Local government leaders will need to balance the risks and rewards of adopting cloud, mobile and big data technologies. They also will need adequate cybersecurity defenses if they are attacked, keeping public services running and avoiding paying hefty ransom demands. (App-05)

With these issues in mind, the Grand Jury elected to focus on examining the cybersecurity readiness of the Cities as they increasingly digitize government services and functions. The circumstances and challenges for each City are unique, so the solutions will vary.

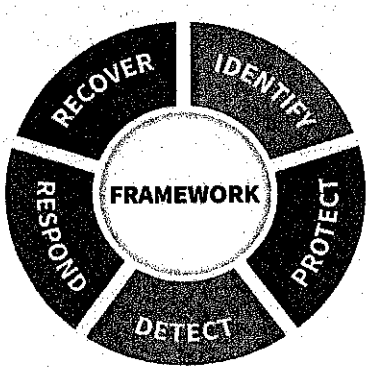
Methodology

The Grand Jury obtained information from the following sources:

- Internet research to gather relevant information from a variety of authoritative sources
- Interviews with local IT subject matter experts from September through November 2019
- Interviews with City officials and IT personnel within the County from October through November 2019
- Related documents provided by City officials

The Grand Jury's interview questions and document requests focused on the "Five Functions of the Cybersecurity Framework" (Cybersecurity Framework). This framework represents five key pillars of a successful and holistic cybersecurity program as developed by the U.S. Department of Commerce and used throughout the Federal government.

The Five Functions of the Cybersecurity Framework



NIST
National Institute of Standards and Technology
U.S. Department of Commerce

(Ref-14)

The California Public Records Act Government Code Section 6254.19 protects from public disclosure a record that would reveal vulnerabilities to, or otherwise increase the potential for an attack on, an information technology system of a public agency. Therefore, the Grand Jury's report does not detail any specific cybersecurity vulnerabilities that may have been discovered during the Grand Jury's investigation. (Ref-15)

The Grand Jury appreciates the cooperation of local subject matter experts and City staff interviewed in the course of the investigation.

Facts

City Cybersecurity Awareness & Preparation in the County

FA-01. Attackers often target small organizations and cities that have few resources to defend themselves. (Ref-02, Ref-03)

FA-02. Cities are aware of the threat of cyberattacks and, to a varying degree, take active measures to reduce the risk in accordance with the Cybersecurity Framework. (Ref-14)

FA-03. On March 13, 2020, the California Cyber Security Integration Center issued a cybersecurity advisory titled Teleworking Quick Reference Guide. The guide highlights some security concerns and best practices end-users and network administrators should consider when implementing a teleworking program. (App-01)

FA-04. Not all Cities are implementing the teleworking best practices recommended by the California Cyber Security Integration Center. (Ref-16) (App-01)

FA-05. City managers and IT personnel provide ongoing cyber safety training and encourage personnel to take advantage of that training.

Collaboration within the County

FA-06. The Ventura County Executive Office created an informal network of City IT managers, thereby collectively elevating the level of the Cities' IT performance.

FA-07. City managers and IT personnel meet with their counterparts from other Cities on a regular basis to collaborate regarding cyberattacks.

City Web Addresses (URLs)

FA-08. The California Department of Technology and the National League of Cities recommend using .gov domain names and secure internet protocols. (App-01)

FA-09. Nine out of ten Cities use HTTPS (Hypertext Transfer Protocol Secure). Two out of ten Cities have .gov domain names. (App-03)

Cybersecurity Resources

FA-10. Cybersecurity and Infrastructure Agency

- The Department of Homeland Security (DHS) designated the Cybersecurity and Infrastructure Agency (CISA) to be the lead federal department to provide cybersecurity assistance to State, Local, Tribal and Territorial (SLTTs) government organizations. (App-02)
- CISA provides SLTTs with a "one-stop shop" of free services for cyber risk assessments, cybersecurity evaluations, incident assistance coordination, cyber exercises/training and recommended best practices. (App-02)

FA-11. Only one City uses any of the free CISA resources. That City uses only one of the available resources.

FA-12. Among its many services, CISA operates the Protective Security Advisor (PSA) Program. PSAs are DHS-trained critical infrastructure protection and vulnerability mitigation subject matter experts. Upon request, these experts provide free cybersecurity advice and assistance to SLTTs. (App-02)

FA-13. Nine of the 10 Cities maintain their cyber infrastructure through the use of internal staff and/or hiring vendors, in each case without taking advantage of CISA assistance.

FA-14. By using just one free CISA service, the remaining City saved at least $1,000 per month over five years. That City was not aware of the other available free CISA services.

FA-15. The DHS designated the nonprofit member driven Multi-State Information Sharing & Analysis Center (MS-ISAC) as its partner for sharing cybersecurity information with the SLTT governments. (App-02)

FA-16. MISAC also provides some fee-based cybersecurity services. (App-02)

FA-17. While all IT managers for the Cities are members of MISAC, less than half are members of MS-ISAC. Furthermore, only three Cities' IT personnel attended the MISAC 2019 Annual Conference. (Ref-17)

FA-18. Representatives from MS-ISAC provided information on available Federal cybersecurity resources at the 2019 MISAC conference. (Ref-18)

FA-19. More than 90 California cities hold memberships in MS-ISAC; two Cities in the County are members. (Ref-19)

FA-20. Of those Cities that use servers, hybrid cloud and cloud platforms, few take advantage of the cost-saving FedRAMP Moderate program to contract with cloud providers. (App-02)

Partnerships with Local Educational Institutions

FA-21. Some Cities partner with local educational institutions to develop internship opportunities and create a talent pool for cybersecurity or information technology. Those that do employ cybersecurity interns reported positive experiences and personnel cost savings.

FA-22. Three County higher educational institutions offer cybersecurity and internship programs:

- California Lutheran University (Ref-20)
- California State University Channel Islands (Ref-21, Ref-22)
- Moorpark College (Ref-23)

Information Technology Department Staffing

FA-23. Some Cities have difficulty recruiting and retaining IT staff. Salaries and benefits for City IT staff are not competitive with the private sector.

Cybersecurity Liability Insurance

FA-24. All Cities have cybersecurity liability insurance through the California Joint Powers Insurance Authority or other insurers.

FA-25. In addition to recommending cyber liability insurance for cities, the MISAC Security committee encourages MISAC members require their IT vendors have cyber liability insurance. (Ref-24)

City Budgets for Information Technology Services

FA-26. In reviews of budget documents, the Grand Jury found that five Cities have Information Services/Technology Departments line items in their adopted budgets. No City has a publicly viewable budget line item specifically for cybersecurity. (App-03)

FA-27. Two of the Cities anticipate spending over $5 million on information services in the upcoming budget year. (App-03)

Cyber Incident Response and Disaster Recovery Plans

FA-28. In 2018, a major provider of cybersecurity policies conducted a survey of public and private-sector respondents. In that survey 91% of respondents were confident their companies had implemented best practices to avoid a cyber event. Yet, 55% admitted not completing a cyber-risk assessment, 62% had not developed a business continuity plan and 63% had not completed a cyber-risk assessment on vendors who have access to their data. (Ref-25)

FA-29. Not all Cities have comprehensive cyber incident response, recovery and business continuity plans.

Vendor Management

FA-30. Business and Intellectual Property Attorney Lisa M. Thompson advised in August 2019 that cities should defend against cybersecurity threats by conducting risk management assessments on all third-party vendors that have access to confidential data and interact with municipal networks and systems. In addition, she stated that cities should require all vendors provide security documentation. (Ref-26)

FA-31. Most Cities do not manage the cyber risk of third-party vendors.

Conclusions

C-01. While the Grand Jury recognizes each City is taking steps to implement cybersecurity and to defend against cyberattacks, it concludes there is no perfect solution to cybersecurity or defense against cyberattacks. (FA-01, FA-02, FA-03, FA-04, FA-05, FA-06, FA-07)

C-02. The Grand Jury concluded eight Cities are currently using suboptimal web addresses for their websites. (FA-08, FA-09)

C-03. The Grand Jury concluded generally Cities are not utilizing free federal and discounted federally aligned resources available to Cities to bolster their cybersecurity defenses. (FA-10, FA-11, FA-12, FA-13, FA-14, FA-15, FA-16, FA-17, FA-18, FA-19, FA-20)

C-04. The Grand Jury concluded cybersecurity staffing could be improved with more effective recruiting and staff retention practices. (FA-21, FA-22, FA-23)

C-05. The Grand Jury concluded Cities should manage cyber risks associated with vendors by requiring they provide annual documentation regarding cybersecurity insurance and cybersecurity practices. (FA-24, FA-25, FA-30, FA-31)

C-06. The Grand Jury concluded some Cities do not clearly identify expenditures regarding information technology or cybersecurity in their budgets. (FA-26, FA-27)

C-07. The Grand Jury concluded all Cities would benefit from comprehensive cyber incident response, recovery and business continuity plans. (FA-28, FA-29)

C-08. The Grand Jury concluded some Cities are not following the recommended best practices for teleworking published by California Cyber Security Integration Center (FA-03, FA-04)

Recommendations

R-01. The Grand Jury recommends Cities establish secure web addresses through the use of HTTPS or other such protocols. (C-02)

R-02. The Grand Jury recommends Cities establish trustworthy web addresses by following the California Department of Technology domain name taxonomy guidance. (C-02)

R-03. The Grand Jury recommends Cities utilize free federal and federally aligned cybersecurity services as set forth in Appendix 02 to supplement internal staff and/or replace vendor services whenever possible. (C-03)

R-04. The Grand Jury recommends Cities' IT staff subscribe to CISA updates online. (C-03)

R-05. The Grand Jury recommends Cities take advantage of discounted services and cooperative purchasing programs whenever possible. (C-03)

R-06. The Grand Jury recommends Cities develop personnel cost-saving opportunities and create a cybersecurity talent pool by recruiting interns or graduating students using: (C-04)

- The Scholarships for Service program described in Appendix 02
- Local education institutions (high school, community college, private college and state university)

R-07. The Grand Jury recommends Cities maintain good vendor management by: (C-03, C-05)

- Obtaining CISA assistance to conduct risk management assessments on all third-party vendors that have access to any confidential data or that interact with City networks and systems
- Requiring all vendors provide cybersecurity documentation. As part of their ongoing third-party due diligence, Cities should evaluate vendors for compliance and risk on an annual basis
- Requiring IT vendors obtain cybersecurity insurance.

R-08. The Grand Jury recommends Cities clearly identify expenses for their Information Services (Technology) Departments in their approved budgets. (C-06)

R-09. The Grand Jury recommends Cities develop and test cyber incident response, recovery and business continuity plans. (C-07)

R-10. The Grand Jury recommends Cities implement the best practices for teleworking as published by the California Cyber Security Integration Center. (C-08)

R-11. The Grand Jury recommends Cities develop a written plan for implementation of R-01 through R-10 prior to December 31, 2020.

Responses

Responses Required From:

City Council, City of Camarillo (C-01, C-02, C-03, C-04, C-05, C-06, C-07, C-08) (R-01, R-02, R-03, R-04, R-05, R-06, R-07, R-08, R-09, R-10, R-11)

City Council, City of Fillmore (C-01, C-02, C-03, C-04, C-05, C-06, C-07, C-08) (R-01, R-02, R-03, R-04, R-05, R-06, R-07, R-08, R-09, R-10, R-11)

City Council, City of Moorpark (C-01, C-02, C-03, C-04, C-05, C-06, C-07, C-08) (R-01, R-02, R-03, R-04, R-05, R-06, R-07, R-08, R-09, R-10, R-11)

City Council, City of Ojai (C-01, C-02, C-03, C-04, C-05, C-06, C-07, C-08) (R-01, R-02, R-03, R-04, R-05, R-06, R-07, R-08, R-09, R-10, R-11)

City Council, City of Oxnard (C-01, C-02, C-03, C-04, C-05, C-06, C-07, C-08) (R-01, R-02, R-03, R-04, R-05, R-06, R-07, R-08, R-09, R-10, R-11)

City Council, City of Port Hueneme (C-01, C-02, C-03, C-04, C-05, C-06, C-07, C-08) (R-01, R-02, R-03, R-04, R-05, R-06, R-07, R-08, R-09, R-10, R-11)

City Council, City of Santa Paula (C-01, C-02, C-03, C-04, C-05, C-06, C-07, C-08) (R-01, R-02, R-03, R-04, R-05, R-06, R-07, R-08, R-09, R-10, R-11)

City Council, City of Simi Valley (C-01, C-02, C-03, C-04, C-05, C-06, C-07, C-08) (R-01, R-02, R-03, R-04, R-05, R-06, R-07, R-08, R-09, R-10, R-11)

City Council, City of Thousand Oaks (C-01, C-02, C-03, C-04, C-05, C-06, C-07, C-08) (R-01, R-02, R-03, R-04, R-05, R-06, R-07, R-08, R-09, R-10, R-11)

City Council, City of Ventura (C-01, C-02, C-03, C-04, C-05, C-06, C-07, C-08) (R-01, R-02, R-03, R-04, R-05, R-06, R-07, R-08, R-09, R-10, R-11)

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Glossary

TERM	DEFINITION
Attacker	Any individual or organization who attempts to destroy, expose, alter, disable, steal or gain unauthorized access to or make unauthorized use of an asset.
Big Data	A field that treats ways to analyze, systematically extract information from or otherwise deal with data sets that are too large or complex to be dealt with by traditional data-processing application software.
Bitcoin(s)	A decentralized digital currency without a central bank or single administrator that can be sent from user to user on the peer-to-peer bitcoin network without the need for intermediaries.
CIS	Center for Internet Security
CISA	Cybersecurity and Infrastructure Security Agency
Cities	The 10 incorporated cities in the County
County	Ventura County
Cyberattack	Any type of offensive maneuver that targets computer information systems, infrastructures, computer networks, or personal computer devices.
Cybersecurity	The protection of computer systems and networks from the theft of or damage to their hardware, software, or electronic data, as well as from the disruption or misdirection of the services they provide.
DHS	Department of Homeland Security
Encrypt	The process of encoding a message or information in such a way that only authorized parties can access it and those who are not authorized cannot.
FedRAMP	The Federal Risk and Authorization Management Program. A U.S. government-wide program that provides a standardized approach to security assessment, authorization and continuous monitoring for cloud products and services.
FedRAMP Moderate	The California administered FedRAMP

Grand Jury	2019-2020 Ventura County Grand Jury
HTTPS	Hypertext Transfer Protocol Secure
IT (Information Technology)	The use of computers to store, retrieve, transmit and manipulate data information. Typically used within the context of business operations as opposed to personal or entertainment technologies. All hardware, software and peripheral equipment operated by a limited group of users, as in "IT Department."
Malware	Any software intentionally designed to cause damage to a computer, server, client, or computer network. By contrast, software that causes unintentional harm due to some deficiency is typically described as a software bug. A wide variety of malware exists, including computer viruses, worms, Trojan horses, ransomware, spyware, adware, and scareware.
MISAC	The Municipal Information Systems Association of California
MS-ISAC	Multi State Information Sharing and Analysis Center
NIST	National Institute for Standards and Technology (U.S. Department of Commerce)
NSF	National Science Foundation (administers SFS)
Server	A computer that provides data to other computers.
SFS	CyberCorps Scholarships for Service
SLTT	State, Local, Tribal and Territorial Governments; includes special districts (e.g. Libraries, airports, water districts, harbors, etc.)
USB Drive	A data storage device that includes flash memory with an integrated USB interface. It is typically removable and rewritable.
URL	Colloquially termed a "web address," is a reference to a web resource that specifies its location on a computer network and a mechanism for retrieving it. A URL (Uniform Resource Locator) is a specific type of Uniform Resource Identifier (URI), although many people use the two terms interchangeably.

Appendices

App-01. A Compilation of Best Practices from Authoritative Sources

App-02. Cybersecurity Resources

App-03. City Budgets

App-04. Federal Government Cybersecurity Recommendations for SLTTs

App-05. State of the Art Platforms and Tools

Appendix 01

A Compilation of Best Practices from Authoritative Sources

A Compilation of Best Practices from Authoritative Sources	
Source	**Recommendation**
California Department of Technology Internet Domain Name Taxonomy Preparation Instructions in the Statewide Information Management Manual – Section 40A https://cdt.ca.gov/wp-content/uploads/2017/05/SIMM-40A-Internet-Domain-Instructions.pdf	Each city government domain name should be "cityof" followed by the name of the city OR the name of the city followed by "city.ca.gov" OR in the case that there is no county with the same name, just the name of the city followed by ".ca.gov".
	Each county government domain name should be "countyof" followed by the name of the county OR the name of the county followed by "county.ca.gov" OR in the case that there is no city with the same name, the name of the county followed by ".ca.gov"
National League of Cities Protecting Our Data: WHAT CITIES SHOULD KNOW ABOUT CYBERSECURITY https://www.nlc.org/sites/default/files/2019-10/CS%20Cybersecurity%20Report%20Final.pdf	Convert to .gov domains in order to prevent impersonators of municipal services from targeting residents.
United States Senate DOTGOV Online Trust in Government Act of 2019 (S.2749) https://www.hsgac.senate.gov/media/minority-media/peters-johnson-klobuchar-and-lankford-introduce-bipartisan-bill-to-strengthen-cybersecurity-for-local-governments	The bill sponsors note that it can be difficult to identify a legitimate website when a government uses a .com, .org, or .us domain name. The sponsors note that when local governments don't use the .gov domain, it allows cybercriminals to more easily impersonate government officials in order to defraud the public and get people to share sensitive information.
	The bill helps the transition to a .gov domain name to be more affordable for local governments by making the change an allowable expense under DHS's Homeland Security Grant Program.
DHS – CISA https://www.cisa.gov/insights https://www.us-cert.gov/ncas/tips/ST18-006	Phishing emails and the use of unencrypted Hypertext Transfer Protocol (HTTP) remain persistent channels through which malicious actors can exploit vulnerabilities in an organization's cybersecurity posture. Attackers may spoof a domain to send a phishing email that looks like a legitimate email. At the same time, users transmitting data via unencrypted HTTP protocol, which does not protect data from interception or alteration, are vulnerable to eavesdropping, tracking and the modification of the data itself.
CISA – Cyber Essentials Infographic https://www.cisa.gov/sites/default/files/publications/19_1105_cisa_CISA-Cyber-Essentials.pdf	Cyber Essentials Infographic Guide for Leaders and IT Professionals.

CISA – Recommendations for Incident Response Plans, Recovery Plans and Business Continuity Plans https://www.cisa.gov/sites/default/files/publications/19_1106_cisa_CISA_Cyber_Essentials_S508C_0.pdf	• Develop an incident response and disaster recovery plan outlining roles and responsibilities. • Test the plan often. • Leverage business impact assessments to prioritize resources and identify which systems must be recovered first. • Learn who to call for help (outside partners, vendors, government/industry responders, technical advisors and law enforcement). • Develop an internal reporting structure to detect, communicate and contain attacks. Leverage in-house containment measures to limit the impact of cyber incidents when they occur.
California Cyber Security Integration Center Guidance for Teleworkers (3/13/20) https://www.caloes.ca.gov/LawEnforcementSite/Documents/Cal-CSIC_Advisory_Teleworking%20Guidance.pdf	Teleworking Quick Reference Guide. Teleworking requires additional network security and user considerations. This document highlights some of the security concerns and best practices end-users and network administrators should consider when implementing a teleworking program.
"Cybersecurity Best Practices for Municipalities", New Hampshire Municipal Association, by Lisa M. Thompson, August 2019 https://www.nhmunicipal.org/town-city-article/cybersecurity-best-practices-municipalities	City vendors should provide cybersecurity documentation to the cities. As part of their ongoing third-party due diligence, cities should evaluate vendors for compliance and risk on an annual basis.

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Appendix 02

Cybersecurity Resources

Cybersecurity Resources	
Source	**Service**
CISA https://www.cisa.gov/sites/default/files/publications/2019-CSSS-CISA-Regional-Services-508.pdf, slides 10 and 15. CISA was established within Homeland Security in 2018 by the Cybersecurity and Infrastructure Security Agency Act of 2018 to coordinate efforts to address cybersecurity threats to critical infrastructure by working with private companies as well as state and local governments. https://www.cisa.gov/about-cisa	Provides SLTTs with a "one-stop shop" of free services for cyber risk assessments, cybersecurity evaluations, incident assistance coordination, cyber exercises/training, and best practices.
CISA – Assessments https://www.cisa.gov/about-cisa	CISA offers a range of free cybersecurity assessments that evaluate operational resilience, cybersecurity practices, organizational management of external dependencies, and other key elements of a robust cybersecurity framework. CISA's cybersecurity assessment services are offered solely on a voluntary basis and are available to SLTTs upon request.
CISA – Infrastructure Security Division Protective Security Advisor (PSA) Program https://www.dhs.gov/cisa/protective-security-advisors	PSAs are trained critical infrastructure protection and vulnerability mitigation subject matter experts who facilitate local field activities in coordination with other Department of Homeland Security offices. They advise and assist state, local and private sector officials and critical infrastructure facility owners and operators.
Local CISA Protective Security Advisor https://www.cisa.gov/sites/default/files/publications/PSA-Program-Fact-Sheet-05-15-508.pdf	The DHS has a free Protective Security Advisor in the Camarillo, California, Office of Homeland Security.

Cybersecurity Resources	
Source	**Service**
CISA - "Cyber Essentials" https://www.cisa.gov/sites/default/files/publications/19_1105_cisa_CISA-Cyber-Essentials.pdf	On November 6, 2019, CISA launched "Cyber Essentials" in an effort to equip small organizations with basic steps and resources to improve their cybersecurity.
CISA's Cyber Essentials https://www.cisa.gov/blog/2019/12/12/get-your-city-cyber-ready-cisas-cyber-essentials https://www.cisa.gov/sites/default/files/publications/19_1106_cisa_CISA_Cyber_Essentials_S508C_0.pdf	In a December 12, 2019 blog on the CISA website Bradford Willke wrote "CISA intends for this to be the first of many '*Cyber Essentials*' product releases. In the coming months, we will be developing a toolkit that provides users with additional detail on each Essential and links them to helpful resources for implementation. We will also continue to engage with partner organizations to get the word out about the 'Cyber Essentials' and collaborate with us in developing the toolkit."
The National League of Cities "What Cities Should Know About Cybersecurity" https://41g41s33vxdd2vc05w415s1e-wpengine.netdna-ssl.com/wp-content/uploads/2019/10/NLC_CybersecurityReport.pdf	The report is intended to be a guide to help local governments understand their cybersecurity vulnerabilities and how they can improve security practices.
CIS https://www.cisecurity.org/about-us/ https://www.cisa.gov/partnership-engagement-branch	A nonprofit, member driven organization formed in 2000. Its mission is to identify, develop, validate, promote, and sustain best practice solutions for cyber defense. CIS operates the MS-ISAC program which is designated by DHS as the cybersecurity Information Sharing and Analysis Center (ISAC) for SLTT governments to share information between government and industry.

Cybersecurity Resources	
Source	**Service**
MS-ISAC https://www.cisecurity.org/blog/cis-securesuite-membership-free-for-u-s-sltts-what-you-need-to-know/	In 2018 MS-ISAC's CIS SecureSuite membership became free to SLTT governments in the United States.
MISAC https://www.misac.org/	Founded in 1980, MISAC is comprised of public agency information technology professionals working throughout California. On its website MISAC states it promotes the understanding and strategic use of information technology within local government agencies through sharing of best practices. MISAC is a member based organization that serves as an advisor to the League of California Cities. It does not have a relationship with DHS.
MISAC – Security Committee https://www.misac.org/news/407088/MISACs-New-Security-Committee-Up-and-Running.htm	Promotes three best practices that municipalities can implement to stay on top of their organization's cybersecurity: 1. Cyber liability insurance 2. Cyber for Internet Security (CIS) Controls 3. Multi-State Information Sharing & Analysis Center (MS-ISAC) membership. Joining MS-ISAC is free to municipal government IT operations.
GovLaunch https://govlaunch.com/	A national free, private platform for any verified employees of local government to share details of their projects or initiatives. It is a website where local governments can find out what technology their peers are turning to and how they're using it.

Cybersecurity Resources	
Source	**Service**
FedVTE niccs.us-cert.gov/training/federal-virtual-training-environment-fedvte	FedVTE is a free, online, on-demand cybersecurity training system managed by DHS that is available to SLTT government personnel. It contains more than 800 hours of training on topics such as ethical hacking, surveillance, risk management and malware analysis. Resource benefits include: • Diverse courses – The program offers more than 300 demonstrations and 3,000 related materials, including online lectures and hands-on virtual labs. • Certification offerings – Offerings include Network +, Security +, Certified Information Systems Security Professional (CISSP), Windows Operating System Security and Certified Ethical Hacker. • Experienced instructors – All courses are taught by experienced cybersecurity subject matter experts.
CIS CyberMarket https://www.cisecurity.org/services/cis-cybermarket/	CIS's collaborative purchasing program that serves SLTT organizations, not-for-profit entities, and public health and education institutions to improve cybersecurity through cost-effective group procurement. The objective of the CIS CyberMarket is to combine the purchasing power of governmental and nonprofit sectors to help participants improve their cybersecurity environment at a lower cost than they would have been able to attain on their own.

Cybersecurity Resources	
Source	**Service**
General Services Administration Cooperative Purchasing Program https://www.gsa.gov/technology/technology-products-services/it-security https://www.gsa.gov/buying-selling/purchasing-programs/gsa-schedules/schedule-buyers/state-and-local-governments/cooperative-purchasing	Allows SLTTs to purchase IT and security products and services offered through GSA's negotiated contracts. The advantage for eligible users of the GSA Cooperative Purchasing Program is that vendor services and products can be procured at the lowest possible price with the assurance that contractors are qualified to sell to the federal government.
FedRAMP Moderate https://www.fedramp.gov/ https://cdt.ca.gov/wp-content/uploads/2019/01/2018-Annual-Report_FINAL_accessible.pdf, p. 12 https://cdt.ca.gov/wp-content/uploads/2019/09/TA_18-05.pdf	A U.S. government program that establishes a standardized approach for validating that cloud services are secure. FedRAMP offers independent, third-party validation of a cloud provider's security posture and a standardized approach to security assessments, authorization and continuous monitoring for cloud products and services. It is administered by the states. Available to all California cities and counties. This single state contract provides cloud services to government customers at discounted prices of up to 9.5%, with additional volume discounts available for select providers. Service providers include Amazon, Microsoft and IBM.
California's Cybersecurity Task Force https://www.caloes.ca.gov/cal-oes-divisions/cybersecurity-task-force/task-force-subcommittees	While not currently providing direct cybersecurity support to California's cities, this task force may be a future resource.

Cybersecurity Resources	
Source	**Service**
The National Science Foundation https://www.sfs.opm.gov/	Administers the Federal SFS program which is an effective recruiting tool for SLTTs. Upon graduation, scholarship recipients are required to work as cybersecurity professionals for a period equal to the length of their scholarship. The CyberCorps scholarship assists in funding the typical costs incurred by full-time students while attending a participating institution, including tuition and education and related fees. The scholarships are funded through grants awarded by the National Science Foundation in partnership with DHS and the Federal Office of Personnel Management (OPM). City hiring Managers and Human Resources Consultants interested in recruiting from the SFS program can gain access to this candidate pool by contacting the program office at sfs@opm.gov.

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Appendix 03

City Budgets

City Budgets

City of Camarillo Adopted 2018-2020 [2 years] Budget
https://www.cityofcamarillo.org/Finance/Budget/City%20of%20Camarillo%202018%20-%202020%20Budget.pdf, p. 56

City of Fillmore, CA Adopted Operating Budget 2019-20
https://www.fillmoreca.com/home/showdocument?id=5431

City of Moorpark, CA Operating and Capital Improvement Projects Budget Fiscal Year 2019–2020
https://www.moorparkca.gov/DocumentCenter/View/9589/F-201920-Budget?bidId=, pp. 87-91

City of Ojai, CA Adopted Municipal Budget 2019–2020
https://ojaicity.org/the-adopted-municipal-budget-for-fiscal-year-2019-2020-now-online/, p. 35

City of Oxnard Adopted Budget Fiscal Year 2019-2020
https://www.oxnard.org/wp-content/uploads/2019/10/FINANCE_ADOPTED_Budget_Book_19_20.pdf, pp. 152–155

City of Port Hueneme FY 2019-21 Operating Budget
https://www.ci.port-hueneme.ca.us/DocumentCenter/View/2953/OperatingBudget-19-20-and-20-21?bidId=

City of Santa Paula 2019-2020 Fiscal Year Budget
https://spcity.org/209/Financial-Reports

City of Simi Valley FY2019-20 Adopted Budget
https://www.simivalley.org/home/showdocument?id=21214, pp. 97, 98

City of Thousand Oaks Adopted Operating Budget Fiscal Years 2019-2020 & 2020 – 2021
https://www.toaks.org/home/showdocument?id=22064

City of Ventura Adopted Budget
https://www.cityofventura.ca.gov/DocumentCenter/View/18416/FY-2019-20-Adopted-Budget?bidId=

Appendix 04

Federal Government
Cybersecurity Recommendations for SLTTs

Federal Government
Cybersecurity Recommendations for SLTTs

- Implement an awareness and training program emphasizing awareness of the threat of ransomware and how it is delivered. Because end users are targets, employees and individuals should be aware of the threat of ransomware and how it is delivered.
- Enable strong spam filters to prevent phishing emails from reaching the end users and authenticate inbound email using technologies like Sender Policy Framework (SPF), Domain Message Authentication Reporting and Conformance (DMARC), and Domain Keys Identified Mail (DKIM) to prevent email spoofing.
- Scan all incoming and outgoing emails to detect threats and filter executable files from reaching end users.
- Configure firewalls to block access to known malicious IP addresses.
- Patch operating systems, software, and firmware on devices. Consider using a centralized patch management system.
- Set anti-virus and anti-malware programs to conduct regular scans automatically.
- Manage the use of privileged accounts based on the principle of least privilege: no users should be assigned administrative access unless absolutely needed; and those with a need for administrator accounts should only use them when necessary.
- Configure access controls—including file, directory, and network share permissions— with least privilege in mind. If a user only needs to read specific files, the user should not have write access to those files, directories, or shares.
- Disable macro scripts from office files transmitted via email. Consider using Office Viewer software to open Microsoft Office files transmitted via email instead of full office suite applications.
- Implement Software Restriction Policies (SRP) or other controls to prevent programs from executing from common ransomware locations, such as temporary folders supporting popular Internet browsers or compression/decompression programs, including the AppData/LocalAppData folder.
- Consider disabling Remote Desktop protocol (RDP) if it is not being used.
- Use application whitelisting, which only allows systems to execute programs known and permitted by security policy.
- Execute operating system environments or specific programs in a virtualized environment.
- Categorize data based on organizational value and implement physical and logical separation of networks and data for different organizational units.

Source: CISA, "Ransomware, What It Is and What To Do About It" https://www.us-cert.gov/sites/default/files/publications/Ransomware_Executive_One-Pager_and_Technical_Document-FINAL.pdf

Appendix 05

State of the Art Platforms and Tools

State of the Art Platforms and Tools		
Tool	**Risks**	**Rewards**
Mobile Devices	• Information breach from lost or stolen devices • Unclear data ownership due to both personal and private usage of devices • Additional endpoints to manage	• Increased accessibility to data anywhere and anytime • Consistent methodologies of data collection
Cloud Computing	• Compromised confidential data • An unauthorized user obtaining information • Insiders circumventing security and releasing private information	• Improved collaboration and continuity • Increased accessibility to information and resources • More opportunities for increased business agility
Big Data Initiatives	• Volumes of data expose organizations to more risks and threats • Challenging to stay ahead of attacks • Harder for agencies to be proactive in spotting big data vulnerabilities	• Identifies relationships, patterns and threats traditionally not seen • Real-time data can stop fraud and attacks faster than traditional data processing • Big data can increase secure operations and meet compliance requirements

Source: Government Technology
https://media2.govtech.com/images/symantecinfographicnewfinalsmall.jpg

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Response to Grand Jury report:

"Cybersecurity Strategies for Cities in Ventura County"

Keith Brooks, Chief Information Officer
Ken Austin, IT Manager - Systems Architecture

COUNTY OF VENTURA

OXNARD

1

Recommendations & Responses

Recommendation:

R-01 ***The Grand Jury recommends Cities establish secure web addresses through the use of HTTPS or other such protocols.***

Response: Agree - Two examples provided.

R-02 ***The Grand Jury recommends Cities establish trustworthy web addresses by following the California Department of Technology domain name taxonomy guidance.***

Response: Agree - Will require further analysis in the coming year.

COUNTY OF VENTURA

OXNARD

2

Recommendations & Responses

Recommendation:

R-03 The Grand Jury recommends Cities utilize free federal and federally aligned cybersecurity services as set forth in Appendix 02 to supplement internal staff and/or replace vendor services whenever possible.

Response: Agree - Verification of participation provided.

R-04 The Grand Jury recommends Cities' IT staff subscribe to CISA updates online.

Response: Agree - Verification of participation provided.

3

Recommendations & Responses

Recommendation:

R-05 The Grand Jury recommends Cities take advantage of discounted services and cooperative purchasing programs whenever possible.

Response: Agree - The City leverages discounted services and cooperative purchasing programs whenever possible.

R-06 The Grand Jury recommends Cities develop personnel cost-saving opportunities and create a cybersecurity talent pool by recruiting interns or graduating students

Response: Agree - We have established a Memorandum of Understanding with the Ventura County Community College District for Interns.

4

Recommendations & Responses

Recommendation:

R-07 The Grand Jury recommends Cities maintain good vendor management by:

- ***obtaining CISA assistance to conduct risk management assessments on all third-party vendors that have access to any confidential data or that interact with City networks and systems.***
- ***Requiring all vendors to provide cybersecurity documentation. As part of their ongoing third-party due diligence, Cities should evaluate vendors for compliance and risk on an annual basis.***
- ***Requiring IT vendors to obtain cybersecurity insurance.***

Response: Agree - CISA (Cybersecurity and Infrastructure Security Agency) resources will be utilized. Cybersecurity insurance is already secured with all tech related contracts.

5

Recommendations & Responses

Recommendation:

R-08 The Grand Jury recommends Cities clearly identify expenses for their Information Services (Technology) Departments in their approved budgets.

Response: Agree - IT expenses are clearly defined in the City Budget (beginning on Page 135)

R-09 The Grand Jury recommends Cities develop and test cyber incident response, recovery, and business continuity plans.

Response: Agree - The Cyber Incident, Response, Recovery and Business Continuity plans will be implemented this fall.

6

Recommendations & Responses

Recommendation:

R-10 The Grand Jury recommends Cities implement the best practices for teleworking as published by the California Cyber Security Integration Center.

Response: Agree - We agree best practices are appropriate and should we implement a policy then we would follow those practices.

R-11 The Grand Jury recommends Cities develop a written plan for implementation of R-01 through R-10 prior to December 31, 2020.

Response: Agree - Will be implemented this winter.

7

Questions?

8

CITY OF OXNARD CALIFORNIA

FINANCE AND GOVERNANCE COMMITTEE
AGENDA REPORT

REPORTS
AGENDA ITEM NO. D.3

DATE: July 14, 2020

TO: Finance & Governance Committee

FROM: Alexander Nguyen, City Manager, (805) 385-7430, alexander.nguyen@oxnard.org

SUBJECT: Annual Delegation of Investment Authority and Investment Policy. (5/5/5)

RECOMMENDATION

That the Finance and Governance Committee recommend the City Council adopt a resolution:
1. Delegating investment authority to the City Treasurer; and
2. Adopting the FY 2020-21 investment policy for the City.

BACKGROUND

Government Code section 53607 authorizes the City Council to delegate its authority to invest or to reinvest City funds, or to sell or exchange securities so purchased, for a one-year period to the City Treasurer. The Council may also renew this delegation of authority each year. On September 15, 1992, the City Council adopted Resolution No. 10,455, delegating to the City Treasurer the authority to invest and to reinvest surplus City funds in short-term public investments and securities. The attached resolution renews the City Treasurer's investment authority pursuant to Resolution No. 10,455 and Government Code section 53607.

Additionally, Government Code section 53646 provides that the City Treasurer may annually render to the City Council a statement of investment policy, which the Council shall consider at a public meeting. The Treasurer last submitted an investment policy to the City Council on July 30, 2019. This year, he instructed staff to submit the same investment policy as last year, changing only the date. Also, there were two references on page 14 of the policy in part G to "Sungard," which is the City's existing enterprise resource planning (ERP) system; those references have also been updated. Appendix No. 3 of the policy has been updated with the current text of Government Code provisions amended by the State in 2019. The policy is attached hereto.

STRATEGIC PRIORITIES

This agenda item supports the Organizational Effectiveness strategy. The purpose of the Organizational Effectiveness strategy is to strengthen and stabilize the organizational foundation of the City in the areas of Finance, Information Technology, and Human Resources, and to improve workforce quality while increasing transparency to the public. This item supports the following goals and objectives:

Goal 1. To help foster a healthy and accountable corporate foundation by strengthening the support functions of the organization, which include Finance, Information Technology and Human Resources.

Goal 2. Increase transparency with Council, community and staff related to the City's budget and financial management processes.

FINANCIAL IMPACT

There is no financial impact.

Prepared by: Shiri Klima, Deputy City Manager

ATTACHMENTS

1. FY 2020-21 Treasurer's Investment Authority Resolution
2. FY 2020-21 Investment Policy
3. Investment Authorization and Policy Presentation

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF OXNARD DELEGATING INVESTMENT AUTHORITY TO THE CITY TREASURER AND ADOPTING THE FY 2020-21 INVESTMENT POLICY

WHEREAS, effective January 1, 1997, Government Code section 53607 was amended to provide the authority of the City Council to invest or to reinvest City funds, or to sell or exchange securities so purchased, may be delegated for a one-year period by the Council to the City Treasurer, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires;

WHEREAS, on September 15, 1992, the City Council adopted Resolution No. 10,455, delegating to the City Treasurer the authority to invest and reinvest the City funds; and

WHEREAS, it remains the intention of the City Council to delegate such authority to the City Treasurer, and

WHEREAS, Government Code Section 53646 provides that the City Treasurer may annually render to the City Council a statement of investment policy, which the City Council shall consider at a public meeting.

NOW, THEREFORE, the City Council of the City of Oxnard resolves to delegate to the City Treasurer the authority to invest and to reinvest City funds, and to sell and exchange securities so purchased, thereby reaffirming such delegation of authority contained in Resolution No. 10,455, for a one-year period. The City Council further resolves to adopt the FY 2020-21 Investment Policy attached hereto as Exhibit A.

PASSED AND ADOPTED this _____ day of July, 2020, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

_____
Tim Flynn, Mayor

ATTEST:

_____
Michelle Ascencion, City Clerk

APPROVED AS TO FORM:

_____
Stephen M. Fischer, City Attorney

City of Oxnard, California
2020-21 Investment Policy
Adopted July __, 2020

This statement is intended to provide guidelines for the prudent investment of surplus funds of the City of Oxnard and to outline the policies for maximizing the efficiency of the City's cash management system. It is the policy of the City to invest public funds in a manner that will provide high investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all State and local statutes governing the investment of public funds. The references to the City Treasurer shall include his or her designee. This policy does not include retirement, retiree health care savings/trust/plan(s) or deferred compensation plans.

This investment policy applies to the City's pooled investment fund, which includes the General Fund, special revenue funds, capital project funds, enterprise funds, trust and agency funds, and internal service funds. This policy is generally applicable to bond proceeds with consideration given to specific provisions of each issuance. Reports of the investment of bond proceeds are issued monthly by the trustee and may be included in the City Treasurer's monthly report of the pooled investment fund.

3.0 PRUDENCE-*Reference Ca. Govt. Code 53600.3* Investments shall be made with judgment and care – under circumstances then prevailing – which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for the investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by City officials responsible for the investment of public funds shall be the "prudent investor" standard and shall be applied in the context of managing the overall City portfolio of funds. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual's security risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 INVESTMENT OBJECTIVES The City's cash management system is designed to accurately monitor and forecast revenues and expenditures thus enabling the City Treasurer to invest funds to the fullest extent possible. The City Treasurer maintains a diversified investment portfolio to accomplish the primary objectives of safety, liquidity and yield (in that order of priority).

Safety – The safety or risk associated with an investment refers to the potential loss of principal, accrued interest or a combination of these. The City seeks to mitigate credit risk by prequalifying and continuously monitoring financial institutions with which it will do business and by careful scrutiny of the credit worthiness of the investment instruments as well as the institutions. Such resources as FDIC bank ratings, Sheshunoff, Fitch, Moody's and Standard and Poor's rating services may be utilized for this review. The City seeks to mitigate interest rate risk through diversification of instruments as well as maturities.

Liquidity – The City investment portfolio will be structured with sufficient liquidity to allow the City to meet its anticipated cash requirements. This will be accomplished through diversity of instruments to include those with active secondary markets, those which match maturities to expected cash needs and the State Local Agency Investment Fund (LAIF) with immediate withdrawal provisions.

Yield – A competitive market rate of return is the third objective of the City investment program after the fundamental requirements of safety and liquidity have been met.

5.0 DELEGATION OF AUTHORITY California Government Code Section 53607 provides the authority for

the legislative body of the local agency to invest the funds of the local agency or to delegate that authority to the treasurer of the local agency. Effective January 1, 1997, such delegation is to be reviewed annually and may be renewed by the City Council (Appendix 3, Section 53607).

City Council – Under City of Oxnard Resolution No. 10455, the City Council has authorized the City Treasurer to invest City funds in accordance with California Government Code Section 53600, et. seq. The City Treasurer will include review of the delegation of authority in the annual presentation of the investment policy to the City Council.

City Treasurer – The execution of investment transactions on a daily basis will be conducted by the City Treasurer. The Assistant City Treasurer will execute transactions only as directed by the City Treasurer in the absence of the City Treasurer. The City Treasurer has established a system of controls and a segregation of responsibilities of investment functions to assure maintenance of internal control over the investment function. The City Treasurer may propose amendments to the City's investment policy, guidelines and procedures at any time in order to carry out the duties as chief investment officer for the City. Such amendments shall be reviewed by the City's Investment Review Committee and considered by the City Council at a public meeting.

6.0 ETHICS AND AVOIDANCE OF CONFLICTS OF INTEREST Investment officials shall refrain from personal business activity that could conflict with proper execution and management of the policy and the investment program, or which could impair their ability to make impartial decisions. Investment officials must provide a public disclosure document by February 1 of each year or when material interest in financial institutions or personal investment position(s) require it. Furthermore, investment officials must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the City. The City Treasurer is governed by the Political Reform Act of 1974 regarding disclosure of material financial interests.

7.0 *CA Govt. Code 53601.5* The City Treasurer shall transact business only with the banks, savings and loan and properly registered securities dealers.

Authorization – The City may conduct business with major registered securities broker-dealers and with dealers designated "Primary" by the Federal Reserve provided all the following criteria are met. The Treasurer or his or her designee will maintain a list of approved financial institutions authorized to provide investment services to the public agency in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). Broker-dealers must:

a. Have offices located within the State of California;
b. Be adequately capitalized;
c. Make markets in securities appropriate to the City's needs;
d. Agree to abide by the conditions set forth in the City's investment policy;

The City Treasurer shall investigate all institutions which wish to do business with the City and shall require that each financial institution complete and return the appropriate questionnaire and required documentation. An annual review of the financial condition and registration of qualified bidders will be conducted by the City Treasurer.

No public deposit shall be made except in a qualified public depository as established by the established State laws. All financial institutions and broker/dealers who desire to conduct investment transactions with the public agency must supply the Treasurer (or Chief Financial Officer) with the following: audited financial statements, proof of NASD certification, trading resolution, proof of State of California registration, completed broker/dealer questionnaire, certification of having read the Public Agency's

investment policy and depository contracts.

Ratings – With the exception of the Local Agency Investment Fund (LAIF) and U.S. Treasury and Government Agency issues, investments shall be placed only in the those instruments and institutions rated favorably as determined by the City Treasurer with the assistance of bank rating services and nationally recognized rating services (FDIC, Fitch's, Moody's, Standard & Poor's, Sheshunoff performance rating, etc.).

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

California Government Code Section 53601 (Appendix 3) defines eligible securities for the investment of surplus funds by local agencies. Surplus funds of the City of Oxnard are invested in compliance with this statute and as further limited in this Investment Policy.

U.S. Government - United States Treasury Bills, Notes, and Bonds are backed by the full faith and credit of the United States Government. There shall be no limitation as to the percentage of the portfolio invested in this category. Maturities are limited to a maximum of five years.

U.S. Agencies - The purchase of instruments of, or issued by, a federal agency or a United States government-sponsored enterprise will be limited to a maximum maturity of five years. Such agencies include, but are not limited to, the Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Student Loan Marketing Association, Tennessee Valley Authority, and the Federal National Mortgage Corporation.

Municipal Bonds, Notes or Evidences of Indebtedness - Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency. Registered State warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State.

Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this State include bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. A maximum of 15 percent of the portfolio may be so invested.

Bankers' Acceptances - Bills of exchange or time drafts drawn on and accepted by commercial banks which are eligible for purchase by the Federal Reserve System are known as bankers' acceptances. Purchases of these instruments may not exceed 180 days to maturity or 40 percent of an agency's surplus funds. A maximum of 30 percent may be invested in the bankers' acceptances of any one commercial bank.

Commercial Paper - This short-term unsecured promissory note is issued to finance short term credit needs. Eligible paper is that which is ranked "Pl" by Moody's Investor Services or "Al" by Standard & Poor's or Fitch's, issued by a domestic corporation having assets in excess of $500,000,000, and having an "A" or better rating on issuer's debt. Purchases of commercial paper may not exceed 270 days or represent more than 10 percent of the outstanding paper of an issuing corporation. Commercial paper purchases will be limited to 15 percent of the City's portfolio.

Negotiable Certificates of Deposit (NCDs) - Allowable NCDs are issued by a nationally or State-chartered bank or a State or federal association or by a State-licensed branch of a foreign bank. The City Treasurer may invest up to 30 percent of surplus funds in NCDs limited to institutions rated "Aa" or better by Moody's or "AA-" or better by Standard & Poor's CD Rating Services. A rating equivalent to FDIC rating of "One" or "Two" or a Sheshunoff performance rating of A or better is required for those institutions not rated by Moody's, Fitch's or Standard & Poor's. NCDs are considered liquid, trading actively in the

secondary market.

Certificates of Deposit (CDs) - Certificates of deposit or "time deposits" of up to $250,000 are federally insured. Beyond that amount, these CDs must be collateralized with the collateral held separately from the issuing institution. The value of the investment must have collateral of at least 110 percent if government securities, or collateral of at least 150 percent if mortgage-backed securities. Statute does not limit CDs, however, this Investment Policy shall limit such investments to a maximum of 30 percent of the portfolio (GC 53601(i)). In addition, time deposits shall be placed in institutions meeting all capital requirements and which maintain a rating equivalent to FDIC rating of “One” or “Two” or a Sheshunoff performance rating of A or better.

Repurchase Agreements - The City may invest in repurchase agreements with banks and dealers of primary dealer status recognized by the Federal Reserve with which the City has entered into a master repurchase contract which specifies terms and conditions of repurchase agreements. The maturity of repurchase agreements shall not exceed 90 days. The market value of securities used as collateral for repurchase agreements shall be monitored by the City Treasurer's office and will not be allowed to fall below 102 percent of the value of the repurchase agreement. In order to conform with provisions of the Federal Bankruptcy Code, which provide for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be eligible negotiable certificates of deposit, bankers' acceptances, commercial paper, or securities that are direct obligations of or that are fully guaranteed by the United States or any agency of the United States. These eligible securities are further defined by California Government Code Section 53651.

Medium Term Notes - A maximum of 30 percent of the City's portfolio may be invested in medium-term notes issued by corporations organized and operating within the United States. Note maturities may not exceed five years. Securities eligible for investment must be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service (i.e., Moody's or Standard & Poor's).

Mutual Funds - Shares of beneficial interest (mutual funds) issued by diversified management companies investing in securities/obligations authorized by California Government Code Section 53600, et. seq., and complying with Section 53601, are permitted investments. Section 53601(l) further defines requirements. A maximum of 20 percent of the portfolio may be so invested.

Local, State, or County Agency Investment Fund - The Local Agency Investment Fund (LAIF) has been established by the State Treasurer for the benefit of local agencies. The City may invest up to the maximum permitted by LAIF and the Ventura County Investment Pool operated under the control of the County Treasurer, and CALTRUST consistent with California Government Code Section 53635.

Ineligible Investments - Investments not described herein, including but not limited to common stocks and financial futures contracts and options, are prohibited in this fund.

City Inter-fund Loans - Funds may be invested in loans to provide specific funding to City programs, provided no loan shall violate any limitations prescribed by California law. Legal requirements shall include but not be limited to those listed in Government Code section 66006(b)(1)(G) for development impact fees and in Government Code section 66013(d)(5) for water connection, sewer connection and capacity charge fees.

9.0 COLLATERAL

The issue of collateral requirements is addressed in California Government Code Section 53652. All active and inactive deposits must be secured at all times with eligible securities in securities pools pursuant to Sections 53656 and 53657. Eligible securities held as collateral shall have a market value in excess of the total amount of all deposits of a depository as follows:

- government securities, at least 10 percent in excess
- mortgage backed securities, at least 50 percent in excess
- letters of credit, at least 5 percent in excess.

FDIC coverage as the Official Custodian of a public unit is insured up to $250,000 per bank and all active and inactive deposits above the FDIC insured amount must be collateralized to be secured.

10.0 INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

a) A description of eligible investment securities, and a written statement of investment policy and objectives.
b) A description of interest calculations and how it is distributed, and how gains and losses are treated.
c) A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
d) A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
e) A schedule for receiving statements and portfolio listings.
f) Are reserves, retained earnings, etc. utilized by the pool/fund?
g) A fee schedule, and when and how is it assessed.
h) Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

11.0 DIVERSIFICATION

The City's portfolio will be suitably diversified by type and institution in an effort to reduce portfolio risk while attaining market average rates.

Security Type and Institution - U.S. Treasury securities and authorized pools, and any portfolio or institutional limits shall comply with California Government Code. Investments are further limited by specific language relating to each investment type as stated in Section 8 of this Policy.

Maximum Maturities - To the extent possible, the City Treasurer will attempt to match investments with anticipated cash flow requirements. The City's portfolio will not be directly invested in securities which mature more than five years from the date of purchase. Reserve funds may be invested in securities exceeding the five years as allowed by California Law (maturity of such investments should coincide as nearly as practicable with expected use of funds).

12.0 INTERNAL CONTROLS

A system of internal controls will be maintained to assure compliance with Federal and State regulations, City Council direction, and prudent cash management procedures.

Investment Review Committee - The City Treasurer shall form the investment committee, whose members may include the City Manager, and Finance Director, or their designated alternates plus members of the public whose interest and knowledge can provide sound advice to the Investment Review Committee tasked with quarterly review of procedures and adherence to this Investment Policy.

Investment Portfolio Guidelines - Guidelines (Appendix No. 2) have been established for procedures within the City Treasurer's Office to assure internal investment controls and a segregation of responsibilities of investment functions.

Annual Audit - The City's portfolio is included in the annual review of the City's financial management

performed by an independent (as defined by FASB and GASB) outside audit firm.

13.0 PERFORMANCE STANDARDS

The investment portfolio will be designed to attain at least a market-average rate of return during budgetary and economic cycles. Whenever possible, and consistent with risk limitations as defined herein and prudent investment principles, the Treasurer shall seek to augment returns above the market average rate of return as shown on the average CMT (Constant Maturity Treasury) whose maturity most closely matches the average maturity of the portfolio. In addition, the City portfolio will be compared with LAIF and the goal is to maintain a higher positive annual yield than LAIF's annual yield.

14.0 REPORTING-*Reference: CA Govt. Code 53646(b)*

The City Treasurer shall provide investment information to City Council.

Periodic Reports - The City Treasurer will provide detailed reports of the investments in the pooled investment fund portfolio on a monthly basis to the City Council, City Manager, Chief Financial Officer, and City Clerk. Within thirty days of the end of each quarter, these reports will be provided with additional information such as market pricing. This report shall include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and moneys held by the local agency, and shall additionally include a description of any of the local agency's funds, investments, or programs, that are under the management of contracted parties, including lending programs. With respect to all securities held by the local agency, and under management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund, the report shall also include a current market value as of the date of the report, and shall include the source of this same valuation.

Annual Report - This Investment Policy will be presented annually following the close of the fiscal year, to the City Council for approval.

Financial Statements per GASB #31 - City Treasurer will provide the portfolio's market value gains/losses to Finance to be incorporated in the fiscal year-end balance sheet.

Financial Statements per GASB #40 - Effective June 30, 2005, additional disclosure is required. City Treasurer will provide detailed maturity and rating information to Finance to be incorporated in the Comprehensive Annual Financial Report (CAFR).

15.0 SAFEKEEPING AND CUSTODY –*Reference: CA Govt. Code 53608*

All security transactions, including collateral for repurchase agreements, entered into by the City Treasurer shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

16.0 INVESTMENT POLICY ADOPTION –*Reference: CA Govt. Code 53646*

The City of Oxnard's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the City Council and any modifications made thereto by the City Treasurer must be presented to the City Council.

The City Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. *Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.* No person, or officer may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City of Oxnard.

APPENDIX

No. 1 Glossary
No. 2 Investment Portfolio Guidelines
No. 3 California Government Code Sections related to Investment of Public Funds

City of Oxnard, California
2020-21 Investment Policy
Adopted July __, 2020

APPENDIX NO. 1: GLOSSARY

AGENCIES: Federal agency securities.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BASIS POINT: One one-hundredth of a percent (i.e. 0.01 %)

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in inter-dealer markets.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various

classes of institutions and individuals, e.g., S&Ls, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loans associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term “pass-throughs” is often used to describe Ginnie Mae investment instruments.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL AGENCY INVESTMENT FUND (LAIF): Funds from local governmental units may be remitted to the California State Treasurer for deposit in this special fund for the purpose of investment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold at a specific date.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase and reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks, and a few unregulated firms.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market

price. This may be the amortized yield to maturity on a bond or the current income return.

RATING AGENCIES: **S&P** Probably the best known of the Big Three rating agencies, Standard and Poor's (S&P) is a company providing financial publishing, information and media to the world's capital markets. It is owned by the McGraw-Hill Companies. S&P also publishes stock market indices, the most well-known of which is the S&P 500.

S&P's ratings from the best quality borrowers to the lowest are: AAA, AA, A, BBB, BB, B, CCC, CC, C, and D. Investment grade is BBB and above. S&P uses plus and minus to add intermediate designations to these ratings.

Moody's Moody's started in 1909 as a publishing company, issuing railroad bond guides called Moody's Manuals. It later expanded its coverage to municipal and commercial bonds, and is now called Moody's Investment Services.

Moody's uses the following ratings: Aaa, Aa, A, Baa, Ba, B, Caa, Ca, and C. Numbers are added for intermediate designations, such as Baa1, Baa2, etc. Investment grade is considered to be Baa and above; anything below is considered speculative, or junk.

Fitch Owned by a French Holding Company, Fimalac SA, Fitch operates internationally and offers financial research as well as credit rating services. The smallest of the Big Three, Fitch uses the same ratings scale as S&P.

Conflicts of Interest of rating agencies

Credit ratings agencies receive fees from the issuers of the securities they rate. In the time leading up to the 2008 financial crisis, S&P, Moody's and Fitch all gave consistently high ratings to mortgage-backed securities created by the investment banks who were paying them. This overrating of risky debt instruments contributed to the financial bubble and subsequent decline. Congress has proposed new regulation of these agencies to increase competition and ensure independence in this market

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Federal Reserve Bank is said to be doing RP, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the banks' vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SPREAD: a) The yield or price difference between the bid and offer on an issue; b) The yield or price difference between different issues.

TREASURY BILLS: A non-interest bearing security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME

YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

City of Oxnard, California
2020-21 Investment Policy
Adopted July __, 2020

APPENDIX NO. 2: OXNARD CITY TREASURER INVESTMENT PORTFOLIO GUIDELINES

A. INTRODUCTION. These guidelines are established to direct and control investment activities in such a manner to assure that the goals established in the Investment Policy are attained.

B. GENERAL FACTORS. Several factors must be considered in preparation for effective portfolio management.

1. Cash Forecast. The cash flow of the City shall be updated daily with an analysis of cash receipts and expenditures. A close working relationship with City Departments having a significant impact on cash flow is maintained to maximize the efficiency of the City's cash management system.

2. Pooled Cash. Whenever practical, the City's cash should be consolidated into one bank account and invested on a pooled concept basis. Interest earnings are allocated according to specific general ledger cash balances. No City bank account may be opened without the knowledge and consent of the City Treasurer.

3. Authorized Institutions. A list of institutions, which meet the criteria of the Investment Policy and have been authorized by the City Treasurer to do business with the City, will be maintained and regularly updated. Investment transactions will be executed only with approved broker/dealers, banks, and savings and loans.

4. Preservation of Portfolio Value. Yield standards are in place in an effort to maintain earnings consistent with the market average rate of return.

5. Golden Rule of Portfolio Management. Investment instrument characteristics should be known and understood before a purchase of the investment instrument. And recognizing that there are no firm and steadfast rules (strategies) for portfolio management due to the fact that investor expectations change by the day, hour and minute, and because of this market instability, prudent principles of fiscal management must be applied.

C. STRATEGY: Strategy refers to the plan of action for managing financial resources in the most advantageous manner. The City Treasurer uses the following elements in developing strategy.

1. Economic Forecasts. Economic forecast information developed by economists and financial experts, obtained through bankers and brokers, is used to assist the City Treasurer with the formulation of an investment strategy for the City.

2. Investment Implementation. Investment transactions will be executed in conformance with anticipated cash flow requirements, economic conditions, and interest rate trends and must be consistent with the established Investment Policy.

3. Yield Enhancement. Investment techniques will be utilized which increase yield and maintain a fully invested position.

D. INVESTMENT PROCEDURES. The City Treasurer has developed internal investment procedures to

provide for effective cash management. Segregation of responsibilities is maintained to assure an adequate system of internal control over the investment function.

1. Diversification. The fund should consist of a mix of various types of securities, issuers, and maturities.

2. Competitive Bids. Purchase and sale of securities shall be made on the basis of competitive bids and offers with a minimum of two quotes being obtained, when practical.

3. Investment Transactions. Investment transactions will be authorized by the City Treasurer. In his/her absence, the Assistant City Treasurer will execute transactions as prescribed by the City Treasurer prior to his/her absence. In the event of unexpected absence and unavailability by the City Treasurer, the Assistant City Treasurer will transact within established guidelines.

4. Electronic Transactions. Whenever possible, the City will use preformatted wire transfers and ACH debits to restrict the transfer of funds to preauthorized accounts only. All electronic transactions require an initiator plus an approval by an authorized employee. Authenticity is verified on next business day for each electronic transaction.

5. Safekeeping. Securities purchased from broker/dealers (on which maturity is greater than 30 days) shall be held in third party safekeeping with the Trust Department of Union Bank of California acting as third party trustee. All such purchases will be on a delivery versus-payment basis. Evidence of account for certificates of deposit will be issued in the City's name and held in City Treasurer's vault.

E. INVESTMENT CRITERIA. All investments will be made in compliance with Federal, State, and Local laws governing the investment of City funds, and in accordance with the City Treasurer's Investment Policy.

1. Maturity of Investment. Investments longer than one year may be made if consistent with the City's cash flow needs, related intent to hold until maturity, unless market conditions demand otherwise. Securities may be sold prior to maturity for cash flow purposes or to otherwise enhance the portfolio. If the rating of any depository declines to an unacceptable level prior to the maturity of an investment of City funds, the investment will be matured at the earliest possible opportunity. If the rating drops below the allowable level of any one of the rating services, the investment will be sold if no significant loss of principal is involved.

Such sales will be determined by the City Treasurer.

2. Certificate of Deposit Evaluation.

(a) Time Certificates of Deposit shall be evaluated in terms of FDIC coverage. For deposits in excess of the insured maximum of $250,000, approved collateral shall be required at the percentage above market value as specified by California Government Code Section 53652 and/or 53651.
(b) Negotiable Certificates of Deposit shall be evaluated in terms of the credit worthiness of the issuer as these deposits are uninsured and uncollateralized promissory notes.

F. PRIMARY GOALS. As set forth in the Investment Policy, the primary goals for the City of Oxnard are safety, liquidity, and yield, in that priority order.

1. Safety. The safety/risk associated with an investment refers to the potential loss of principal, accrued interest, or a combination of these. The City of Oxnard employs investment instruments considered to be safe. The primary duty of the City Treasurer is to protect the cash and investments placed in her trust on behalf of the citizens of the community.
2. Liquidity. Liquidity refers to the ability to convert investment holdings to cash immediately with no loss of principal or accrued interest. This quality of investment is important should an unexpected need for funds occur.

3. Yield. Yield is the dollar earnings the investment provides. Yield becomes important only after the fundamental requirements of safety and liquidity have been met.

G. INTERNAL CONTROL OF INVESTMENTS. Investment transactions are controlled through distribution of responsibilities within the Treasurer's Office by the following procedures:

1. The Treasurer initiates each investment transaction.

2. Details of the investment are recorded on a trade slip and given to the account clerk responsible for encoding the trade details into the electronic investment system. The same account clerk produces a verification letter mailed to the institution receiving the investment. A copy of the letter is forwarded to the transferring bank.

3. The transaction record is then delivered to a designee who enters the transaction on the cash balance spread sheet.

4. At month end the balances on the spreadsheet, maintained by a designee, must balance with the portfolio balance maintained independently by the electronic system clerk.

5. Each business day, the Treasurer's Office receives an electronic report from the City's bank. This report contains checking account balances, a listing of debits and credits, overnight investments and a record of wired funds. This information is incorporated into the monthly checking account statement which provides a cross reference.

6. The Treasurer's Office forwards copies of all investment and transfer letters to General Accounting daily. General Accounting also receives copies of all bank statements, daily print-outs, bank reconciliations, credit/debit memorandums, journal vouchers, and tapes coordinating Treasurer's Receipts with deposits.

7. The Treasurer's report of balances and summary of investments and earnings is compiled monthly and distributed to the City Council, City Manager, City Clerk and Chief Financial Officer. A report, including market values, will be provided on a quarterly basis within 30 days of the close of the last month of each quarter. A report of portfolio gains/losses will be provided to the Chief Financial Officer at fiscal year-end for inclusion in year-end balance sheet reporting.

These Guidelines are provided to all staff members of the City Treasurer's Office having involvement with the investment procedures in any way. It is intended that these guidelines define the details of current practice set forth by the Investment Policy.

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APPENDIX NO. 3: STATE OF CALIFORNIA GOVERNMENT CODE INVESTMENT PROVISIONS

53600.

As used in this article, "local agency" means county, City, City and county, including a chartered City or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

(Amended by Stats. 1987, Ch. 887, Sec. 2.)

53600.3.

Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

(Amended by Stats. 1996, Ch. 749, Sec. 4. Effective January 1, 1997.)

53600.5.

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control.

(Amended by Stats. 1996, Ch. 749, Sec. 5. Effective January 1, 1997.)

53600.6.

The Legislature hereby finds that the solvency and creditworthiness of each individual local agency can impact the solvency and creditworthiness of the state and other local agencies within the state. Therefore, to protect the solvency and creditworthiness of the state and all of its political subdivisions, the Legislature hereby declares that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern.

(Added by Stats. 1995, Ch. 784, Sec. 13. Effective January 1, 1996.)

53601.

This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in

deposits or investments with other local agencies that have separate governing bodies. The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any portion of the moneys that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

(a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

(b) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

(c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

(d) Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

(e) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

(f) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

(g) Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 30 percent of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.

This subdivision does not preclude a municipal utility district from investing moneys in its treasury in a manner authorized by the Municipal Utility District Act (Division 6 (commencing with Section 11501) of the Public Utilities Code).

(h) Commercial paper of "prime" quality of the highest ranking or of the highest letter and number

rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):
(1) The entity meets the following criteria:
(A) Is organized and operating in the United States as a general corporation.
(B) Has total assets in excess of five hundred million dollars ($500,000,000).
(C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.
(2) The entity meets the following criteria:
(A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.
(B) Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.
Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.
(i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decision making authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.
(j) (1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.
(2) Investments in repurchase agreements may be made, on an investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlie a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.
(3) Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:
(A) The security to be sold using a reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.
(B) The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio.

(C) The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.
(D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.
(4) (A) Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may be made only upon prior approval of the governing body of the local agency and shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.
(B) For purposes of this chapter, "significant banking relationship" means any of the following activities of a bank:
(i) Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.
(ii) Financing of a local agency's activities.
(iii) Acceptance of a local agency's securities or funds as deposits.
(5) (A) "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.
(B) "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.
(C) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.
(D) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.
(E) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.
(F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.
(k) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in

a rating category of “A” or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency’s moneys that may be invested pursuant to this section.

(l) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company’s board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.

(2) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.).

(3) If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars ($500,000,000).

(4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).

(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge and shall not exceed 20 percent of the agency’s moneys that may be invested pursuant to this section. However, no more than 10 percent of the agency’s funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

(m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in

accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.
(o) A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.
(p) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).
(q) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.
(r) Commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600.
(Amended by Stats. 2019, Ch. 442, Sec. 11. (AB 857) Effective January 1, 2020.)

53601.1.

The authority of a local agency to invest funds pursuant to Section 53601 includes, in addition thereto, authority to invest in financial futures or financial option contracts in any of the investment categories enumerated in that section.

(Added by Stats. 1983, Ch. 534, Sec. 3.)

53601.2.

As used in this article, "corporation" includes a limited liability company.

(Added by Stats. 2004, Ch. 118, Sec. 18. Effective January 1, 2005.)

53601.5.

The purchase by a local agency of any investment authorized pursuant to Section 53601 or 53601.1, not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.

(Amended by Stats. 2001, Ch. 57, Sec. 2. Effective January 1, 2002.)

53601.6.

(a) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips.

(b) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) that are authorized for investment pursuant to subdivision (l) of Section 53601.

(Amended by Stats. 2009, Ch. 332, Sec. 68.1. Effective January 1, 2010.)

53601.8.

Notwithstanding any other provision of this code, a local agency that has the authority under law to invest funds, at its discretion, may invest a portion of its surplus funds in deposits at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of deposits. The following conditions shall apply:
(a) The local agency shall choose a nationally or state-chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.
(b) The selected depository institution may use a private sector entity to help place local agency deposits with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States and are within the network used by the private sector entity for this purpose.
(c) The selected depository institution shall request that the local agency inform it of depository institutions at which the local agency has other deposits, and the selected depository institution shall provide that information to the private sector entity.
(d) Any private sector entity used by a selected depository institution to help place its local agency deposits shall maintain policies and procedures requiring all of the following:
(1) The full amount of each deposit placed pursuant to subdivision (b) and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.
(2) Every depository institution where funds are placed shall be capitalized at a level that is sufficient, and be otherwise eligible, to receive such deposits pursuant to regulations of the Federal Deposit Insurance Corporation or the National Credit Union Administration, as applicable.
(3) At the time of the local agency's investment with a selected depository institution and no less than monthly thereafter, the private sector entity shall ensure that the local agency is provided with an inventory of all depository institutions in which deposits have been placed on the local agency's behalf, that are within the private sector entity's network.
(4) Within its network, the private sector entity shall ensure that it does not place additional deposits from a particular local agency with any depository institution identified pursuant to subdivision (c) as holding that local agency's deposits if those additional deposits would result in that local agency's total amount on deposit at that depository institution exceeding the Federal Deposit Insurance Corporation or the National Credit Union Administration insurance limit.
(e) If a selected depository uses two or more private sector entities to assist in the placement of a local agency's deposits, the selected depository shall ensure that it does not place additional deposits from a particular local agency with a depository institution if those additional deposits would result in that local agency's total amount on deposit at that depository institution exceeding the Federal Deposit Insurance Corporation or the National Credit Union Administration insurance limit.

(f) The selected depository institution shall serve as a custodian for each such deposit.
(g) On the same date that the local agency's funds are placed pursuant to subdivision (b) by the private sector entity, the selected depository institution shall receive an amount of insured deposits from other financial institutions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution pursuant to subdivision (b).
(h) Notwithstanding subdivisions (a) to (g), inclusive, a credit union shall not act as a selected depository institution under this section unless both of the following conditions are satisfied:
(1) The credit union offers federal depository insurance through the National Credit Union Administration.
(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.
(i) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.
(j) The deposits placed pursuant to this section shall be subject to Section 53638 and shall not, in total, exceed 50 percent of the agency's funds that may be invested for this purpose.
(k) This section shall remain in effect until January 1, 2026, and as of that date is repealed.
(Amended (as amended by Stats. 2015, Ch. 181, Sec. 1) by Stats. 2019, Ch. 619, Sec. 1. (AB 945) Effective January 1, 2020. Repealed as of January 1, 2026, by its own provisions. See later operative version, as amended by Sec. 3 of Stats. 2019, Ch. 619.)

53602.

The legislative body shall invest only in notes, bonds, bills, certificates of indebtedness, warrants, or registered warrants which are legal investments for savings banks in the State, provided, that the board of supervisors of a county may, by a four-fifths vote thereof, invest in notes, warrants or other evidences of indebtedness of public districts wholly or partly within the county, whether or not such notes, warrants, or other evidences of indebtedness are legal investments for savings banks.

(Amended by Stats. 1954, 1st Ex. Sess., Ch. 10.)

53603.

The legislative body may make the investment by direct purchase of any issue of eligible securities at their original sale or after they have been issued.

(Amended by Stats. 1953, Ch. 537.)

53604.

The legislative body may sell, or exchange for other eligible securities, and reinvest the proceeds of, the securities purchased.

(Amended by Stats. 1953, Ch. 537.)

53605.

From time to time, the legislative body shall sell the securities so that the proceeds may be applied to the purposes for which the original purchase money was placed in the sinking fund or the treasury of the local agency.

(Amended by Stats. 1953, Ch. 537.)

53606.

The bonds purchased, which were issued by the purchaser, may be canceled either in satisfaction or sinking fund obligations or otherwise. When canceled, they are no longer outstanding, unless in its discretion, the legislative body holds then uncanceled. While held uncanceled, the bonds may be resold.

(Added by Stats. 1949, Ch. 81.)

53607.

The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

(Amended by Stats. 1996, Ch. 749, Sec. 6. Effective January 1, 1997.)

53608.

The legislative body of a local agency may deposit for safekeeping with a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank located in any City designated as a reserve City by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants, or other evidences of indebtedness in which the money of the local agency is invested pursuant to this article or pursuant to other legislative authority. The local agency shall take from such financial institution a receipt for securities so deposited. The authority of the legislative body to deposit for safekeeping may be delegated by the legislative body to the treasurer of the local agency; the treasurer shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the treasurer.

(Amended by Stats. 1985, Ch. 983, Sec. 17. Effective September 26, 1985.)

53635.

(a) This section shall apply to a local agency that is a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. However, Section 53601 shall apply to all local agencies that pool money in deposits or investments exclusively with local agencies that have the same governing body.

This section shall be interpreted in a manner that recognizes the distinct characteristics of investment pools and the distinct administrative burdens on managing and investing funds on a pooled basis pursuant to Article 6 (commencing with Section 27130) of Chapter 5 of Division 2 of Title 3.

A local agency that is a county, a city and county, or other local agency that pools money in deposits or investments with other agencies may invest in commercial paper pursuant to subdivision (h) of Section 53601, except that the local agency shall be subject to the following concentration limits:

(1) No more than 40 percent of the local agency's money may be invested in eligible commercial paper.

(2) No more than 10 percent of the total assets of the investments held by a local agency may be invested in any one issuer's commercial paper.

(b) Notwithstanding Section 53601, the City of Los Angeles shall be subject to the concentration limits of this section for counties and for cities and counties with regard to the investment of money in eligible commercial paper.

(c) A local agency subject to this section may invest in commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600.

(Amended by Stats. 2019, Ch. 442, Sec. 12. (AB 857) Effective January 1, 2020.)

53636.

(a) At the time the treasurer enters into a contract with the depository pursuant to Section 53649, he or she shall authorize the agent of depository designated by the depository, but including the trust department of the depository only when acceptable to both the treasurer and the depository, to hold securities of the depository in accordance with this article to secure the deposit of the local agency.
(b) Only those trust companies and trust departments, or the Federal Home Loan Bank of San Francisco, which have been authorized by the administrator pursuant to Section 53657 shall be authorized by treasurers to act as agents of depository.
(c) The securities are subject to order of the depository in accordance with Section 53654 except when the provisions of subdivision (i) of Section 53661 and Section 53665 are in effect.
(d) An agent of depository shall not release any security held to secure a local agency deposit in a depository unless the administrator issues an order authorizing the release where either of the following occurs:
(1) A state or federal regulatory agency has taken possession of the depository.
(2) A conservator, receiver, or other legal custodian has been appointed for the depository.
(Amended by Stats. 1998, Ch. 1035, Sec. 10. Effective September 30, 1998.)

53637.

(a) No person shall act as an agent of depository unless that person is a trust company located in this state, the trust department of a bank located in this state, or the Federal Home Loan Bank of San Francisco, and is authorized by the administrator to act as an agent of depository.
(b) (1) An application for authorization shall be in such form, shall contain such information, shall be signed in such manner, and shall (if the administrator so requires) be verified in such manner, as the administrator may prescribe.
(2) The fee for filing an application for authorization with the administrator shall be five hundred dollars ($500).
(3) If the administrator finds, with respect to an application for authorization, that the applicant is competent to act as an agent of depository and that it is reasonable to believe the applicant will comply with all applicable provisions of this article and of any regulation or order issued under this article, the administrator shall approve the application. If the administrator finds otherwise, the administrator shall deny the application.
(4) When an application for authorization has been approved, the applicant shall file with the administrator an agreement to comply with all applicable provisions of this article and of any regulation or order issued under this article. The agreement shall be in such form, shall contain such provisions, and shall be signed in such manner as the administrator may prescribe.
(5) When an application for authorization has been approved, the applicant has complied with paragraph (4), and all conditions precedent to authorizing the applicant to act as agent of depository

have been fulfilled, the administrator shall authorize the applicant to act as agent of depository. (Amended by Stats. 1996, Ch. 1063, Sec. 82. Effective January 1, 1997.)

ANNUAL DELEGATION OF INVESTMENT AUTHORITY AND INVESTMENT POLICY

Presented to:
Finance and Governance Committee

July 14, 2020

CITY OF OXNARD CALIFORNIA

RECOMMENDATION

That the Finance and Governance Committee recommend the City Council adopt a resolution:

1. delegating investment authority to the City Treasurer; and
2. adopting the FY 2020-21 investment policy for the City.

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INVESTMENT AUTHORIZATION RESOLUTION

"The authority of the [City Council] to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the [City Council] to the [City Treasurer]. . . . Subject to review, the [City Council] may renew the delegation of authority pursuant to this section each year. (Gov. Code section 53607.)

- Resolution No. 10,455 (1992) delegated to City Treasurer the authority to invest and to reinvest surplus City funds in short-term public investments and securities
- Proposed resolution renews City Treasurer's investment authority pursuant to Resolution No. 10,455

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INVESTMENT POLICY

"[T]he treasurer or chief fiscal officer of the local agency may annually render to the [City Council] a statement of investment policy, which the [City Council] shall consider at a public meeting." (Gov. Code section 53646(a)(2).)

- City Treasurer prepared investment policy in 2018
- Council adopted it again on July 30, 2019
- This year, the Treasurer told staff: "You can use the same investment policy and change the years"
- Changes:
  - Changed the years
  - Minor tweaks to State law
  - Removed "Sunguard"
- Otherwise, this is identical to last year's investment policy

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CITY OF
OXNARD
CALIFORNIA
QUESTIONS?