
SOUTH FLORIDA WATER MANAGEMENT DISTRICT



Audit of Cash Management

Audit #00-05

Prepared By
Office of Inspector General

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SOUTH FLORIDA WATER MANAGEMENT DISTRICT

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June 1, 2000

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Re: Final Report – Audit of
Cash Management #00-05

This audit was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S. The audit focused on assessing compliance with the District's investment policy and state statutes, reviewing internal controls over cash receipts and disbursements, and evaluating effectiveness of cash flow management. This report was prepared by Tim Beirnes.

Sincerely,

Allen Vann
Inspector General

Enclosure

c: Frank Finch

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TABLE OF CONTENTS

Introduction.....	1
Background.....	1
Objectives, Scope, and Methodology	2
Findings and Recommendations	
Summary	3
Finance Complied with Investment Policy and Maximized Interest Income.....	4
Overall Internal Controls are Sufficient but Fund Transfer Controls Need Strengthening	6
Better Cash Flow Planning Would Further Increase Income	8
Deposits and Bank Reconciliations Made Timely.	10
Tax Collector Excess Fee Refunds Not Received From Broward County.....	11
<i>Appendix: Investment Policy</i>	<i>14</i>

INTRODUCTION

This audit report details the results of our review of the District's cash management function. In the normal course of daily business, the Department of Finance & Administration, receives, disburses, and invests cash.

The District's Investment and Banking policy (06.05000) (the "Policy") governs all District funds regarding investment and banking activities. The District's overall philosophy for investing cash is to obtain the highest rate of return possible within the constraints of maintaining safety of principal and providing adequate liquidity to meet the District's obligations.

BACKGROUND

A significant portion of the District's revenues comes from seasonally collected Ad valorem taxes. As a result, cash inflows generally exceed outflows from November through February. The excess cash inflow is invested until needed to cover the negative cash flows that occur during the remainder of the year. Also, significant cash balances may be accumulated, which are designated for major capital projects such as the Everglades Construction Project, and are invested until needed. Consequently, cash management is essential to good fiscal management.

The District's cash management functions are primarily the responsibility of the District's Treasurer. However, to provide for proper segregation of duties, certain functions are performed by the Accounting and Financial Services Division (Accounting). While the Treasurer is the custodian of the District's monetary assets, Accounting maintains the official financial records for those assets. The Treasurer and Director of Accounting both report independently to the Chief Financial Officer (the position is currently vacant) who is the head of the Department of Finance & Administration (Finance). Cash management responsibilities are divided between Treasury and Accounting as follows:

Treasury	Accounting
Investing District funds and developing cash flow budget and monitoring cash flows.	Accounting for cash and investment transactions.
Opening/closing of bank accounts, and monitoring the quality of bank services.	Reconciling all cash and investment accounts.

Treasury	Accounting
Transferring funds between District investments and bank accounts.	Depositing and recording cash receipts.
Signing disbursement checks, with countersignature of Chairman or Vice Chairman of Governing Board.	Monitoring cash disbursements controls.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to:

- Assess the Department of Finance & Administration's compliance with the District's investment policy and state statutes,
- Review internal controls over cash receipts and cash disbursements and wire transfers,
- Verify that investment transactions were properly recorded, and
- Reviewing the process for projecting cash flow and maintaining liquidity.

Based upon a request from Management, we also examined Tax Collector and Property Appraisers commissions to determine whether the fees they charge the District for their tax collection services are consistent with state statutes.

Our audit encompassed the period from October 1, 1998 to September 30, 1999, which included nearly \$174 million in investment transactions. *Cash and Investments* reflected in the fiscal year end certified annual financial statement was \$268 million.

Our methodology included:

- Testing compliance with the Investment and Banking policy,
- Reviewing internal controls over each major process that affects cash management,
- Reviewing deposits and bank reconciliation practices, and
- Determining whether county tax collectors and property appraisers charged commission in accordance with state statutes.

Our audit was conducted in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Summary

We found that all investment made by the Treasurer were in accordance with the District's investment policy. As a result of the Treasurers initiatives, the District has earned over the past decade almost \$5 million in additional interest income above what would have been earned by merely investing all cash in the State Board of Administration (State Investment Pool). This was achieved within the boundaries of the Policy. However, better cash flow planning through more timely communications between the Departments and the Treasurer would achieve even more favorable results and help avoid losses resulting from the premature sale of investments prior to maturity. While, cash flow projections for capital outlay are performed during the annual budget process; the projections need to be updated throughout the year.

Cash and investments were properly recorded in the accounting system and internal controls were generally found to be adequate. Deposits and bank reconciliations are generally made timely. The banking signatory authority, however, permits the establishment of wire transfers by the same District personnel authorized to, and do, perform fund transfers. In actual practice, we found the process followed for fund wire transfers were adequate and provided satisfactory segregation of duties. Nevertheless, we recommend that the banking signatory authority needs to be more restrictive.

With few exceptions, we found that county tax collectors and property appraisers charged commissions in accordance with the state statute. However, while commissions are deducted from each tax remittance throughout the year, a refund is typically made, as required by Florida Statute, to the District after the end of each year to adjust to the Collectors' actual cost. Broward County's finance department has never remitted any excess fee refunds to the District. We found that the District's cost for collecting property taxes from Broward county residents is 64% higher than in Miami-Dade County and 47% higher than in Palm Beach County. Based on our estimate the District may be entitled to receive an annual refund from Broward County of up to \$520,000. The potential recovery of refunds for the last four years might be as much as \$1,840,000. District financial staff needs to obtain an accounting from Broward County on their tax collection activities and any applicable refund that may be due.

Finance Complied With Investment Policy And Maximized Interest Income

The Finance Department complied with the Policy for all investments made during the fiscal year. Investments were also properly recorded in the accounting system. The District's Investment and Banking Policy (06.05000) specifies the parameters for investing District cash. This policy follows the requirements of Florida Statutes 373.556 and 218.345.

We examined \$173,895,000 of investment purchases made between October 1, 1998 and September 30, 1999 and found that all investment were those types permitted by the Policy and maturing within five years. The majority of the District's funds were invested in *U.S. Agency Obligations* with staggered maturities. Also, to provide liquidity, a certain amount of funds are kept in the State Board of Administration Investment pool (State Investment Pool). The State Investment Pool is a State administered money market fund available to state and local government units. The State Investment Pool generally provides higher yields than commercial money market funds due primarily to lower management fees.

Over the past nine years, the District has earned an additional \$4.7 million of interest income above what would have been earned by merely investing all cash in the State Investment Pool. This was achieved within the boundaries of the Policy. In addition, the District enhances interest income by maintaining zero balance accounts for payroll and general disbursements. Transfers are made daily from the money market account to cover the checks presented for payments each day. This enables the District to earn interest income on the "float". The "float" averaged about \$4.1 million over the last five fiscal years. An average of \$235,000 of additional interest income per year was earned just on the "float".

In reviewing the District's investment policy, we found two minor inconsistencies that need to be corrected. The Policy restricts money market accounts to those that invest exclusively in *United States Treasury* securities. However, some of the District's money market accounts also contain investments in *United States Agency Obligations*. The policy permits investing directly in *United States Agency Obligations*, and in our opinion, should allow for the type of indirect investments in money market funds that are being made by the Treasurer.

The Investment and Banking policy is also outdated and is not consistent with the more up to date Disbursements Policy regarding disbursement of checks of \$100,000 or greater. The Investment and Banking policy has not

been updated since March 9 1995. Part 06.05010 section 6, states that:

. . . cash disbursements of \$100,000 or greater shall have affixed to the check the manual signature of the Executive Director, the Deputy Executive Director, or Chief financial Officer, in addition to the required facsimile signatures.

The Disbursements Policy, last revised on August 12, 1998, no longer requires the third manual signature on checks of \$100,000 or greater. The requirement was eliminated in the Disbursements Policy revision pursuant to Governing Board Resolution No. 98-77.

Recommendations

- 1. Review Investment and Banking Policy to allow indirect investments in United States Agency Obligations through money market funds.**

Management Response: Management concurs with the recommendation and will revise the Investment and Banking Policy definition of Money Market investments to include United States Agency Obligations.

Responsible Department: Finance and Administration

Estimated Completion Date: August 15, 2000

- 2. Revise Investment and Banking Policy to be consistent with the Disbursement Policy regarding the third signature requirement on checks of \$100,000 and greater.**

Management Response: Management concurs with the recommendation and will revise the Investment and Banking Policy to be consistent with the Disbursement Policy regarding third party signatures on checks of \$100,000 or greater.

Responsible Department: Finance and Administration

Estimated Completion Date: August 15, 2000

Overall Internal Controls Are Sufficient But Fund Transfer Controls Need Strengthening

The controls over cash management are good. However, we found one instance where controls need to be improved.

We found that employees who are authorized to perform funds transfers also are authorized to singly establish repetitive funds transfers with the bank. Repetitive funds transfers are established by completing the bank's Repetitive Funds Transfer Set-up Request form which can be approved by any of the seven District officers designated in the banking document titled Authorizing Designation of Depositories (Governing Board Resolution 98-77). The District establishes repetitive funds transfer arrangements for certain recurring disbursements. These disbursements are primarily payroll related items such as retirement, insurance, deferred compensation, etc. Transfers to the State Investment Pool are also made using the repetitive funds transfer process. Repetitive funds transfers permit the Treasurer or either Assistant Treasurer¹ to transfer funds from the District's bank account only to the account specified on the Repetitive Funds Transfer Set-up Request form. The banking signatory authority permits a repetitive funds transfer to be set-up by the same District personnel who are authorized to, and do, perform fund transfers.

One of the principles of sound financial management adopted by the Governing Board that is integral to the District's goal of fiscal accountability is that the District shall maintain an effective system of internal control. One of the tenants of good internal controls is maintaining adequate segregation of duties between employees so that one employee does not have total control over a particular financial transaction from beginning to end. Put into practice, a person or persons other than those authorized to initiate repetitive funds transfers should set-up repetitive funds transfers. This includes the Treasurer and Assistant Treasurers. Hence, they can both set up a repetitive funds transfer and initiate fund transfers. Our audit tests revealed that in actuality this has never occurred. However, good internal controls would require restricting those staff authorized to make repetitive transfers from establishing them with the bank.

The Treasurer and Assistant Treasurers are also authorized to singly initiate non-repetitive fund transfers up to \$5,000,000. Non-repetitive transfers exceeding \$5,000,000 require a call back verification to one of the authorized callers other than the initiators. The threshold was

¹ The Chief Financial Officer (position currently vacant) and Budget Director are designated as Assistant Treasurer's.

established based on the \$5,000,000 insurance coverage limit for the District's Commercial Crime insurance policy. Non-repetitive transfers are not made frequently, but occasionally circumstances necessitate them, such as for the closing of some land purchases. Based upon current controls, discovery of any inappropriate transactions would be swift and the risk of financial loss appears to be adequately covered by insurance.

Recommendations

- 3. We recommend that the banking signatory authority and District Policy be amended to require that the authorization for repetitive funds transfers be restricted to officers not performing actual fund transfer activities.**

Management Response: Management concurs with the recommendation and will codify the existing practice of having an executive level position which does not initiate wire transfers approve the set up of repetitive wire transfers. This will be established in the Banking and Investment Policy and forwarded to the corporate bank.

Responsible Department: Finance and Administration

Estimated Completion Date: August 15, 2000

Better Cash Flow Planning Would Further Increase Income

Cash flow projections for capital outlay are performed annually during the budget process. However, the projections are not updated throughout the year. Periodic updates to cash flow projections reflecting capital outlays would enhance investment income and avoid losses through more efficient cash management. During FY '99 there was a realized capital loss on investments that reduced investment income by \$351,871. These losses resulted from the unplanned need for cash that required the premature liquidation of investments. Cash flow projections should provide a reasonable estimate of cash inflows and outflows to meet obligations as they occur.

An adequate cash flow projection process should also provide the Treasurer with realistic and timely information regarding anticipated material cash receipts and disbursements that are significantly larger than normal daily activity. Timely information provides the Treasurer with the information necessary to formulate an investment strategy to maximize returns while maintaining adequate liquidity. The Treasurer's overall strategy in achieving this objective has been to purchase newly issued U.S. Agency Obligations at par that pay a higher yield than the State Investment Pool and hold them until maturity.

Departments provide cash flow projections for capital outlay during the budget process but do not provide information for periodic updates throughout the year. Improved periodic cash flow projection updates would improve the efficiency of investing cash balances, thereby providing the potential to enhance investment income. Currently there is no requirement for departments with significant capital outlay to participate in updating cash flow projections subsequent to the budget process.

Recommendation

- 4. We recommend implementing a procedure requiring departments with significant capital outlay to participate in cash flow projection updates throughout the year.**

Management Response: The most significant factor affecting cash flow projections is the acquisition of land. While the District recognizes an obligation to buy when the Governing Board approves land purchases, there are many other factors that affect the timing of the actual cash payment. The District's management system for land purchases is the Land Acquisition Management Information System

(LAMIS) database. A team of District staff are currently reengineering LAMIS. The District expects more timely and accurate information of land purchases through this reengineering of LAMIS and improvement of District procedures.

Responsible Department: Real Estate Division

Estimated Completion Date: September 30, 2000

Deposits and Bank Reconciliations Made Timely

The District's Investment and Banking Policy requires:

. . . all cash receipts be deposited within twenty four (24) hours upon receipt unless the aggregate daily receipt is less than \$40,000. All cash receipts will be deposited in the bank on Fridays regardless of amount, thereby leaving no cash receipts in the District vault over the weekend. Deposits of cash receipts and completion of bank reconciliations were made timely.

While cash receipts were deposited timely, not all cash receipts were deposited on Friday as required by the Policy. However, in our opinion this Policy requirement is impractical. Deposits are usually made around 12:00 noon, however, cash receipts are received all day long up until 5:00 PM. (Deposits made before 2:00PM are credited to the account the same day, and thus earn interest for that day.) Therefore, it is not beneficial to require late day deposits for nominal amounts. From a security perspective, the same vault used during the week for deposits would be used over the weekend. There has never been any related security issues.

Recommendation

- 5. We recommend providing more flexibility to staff by deleting the requirement that “All cash receipts will be deposited in the bank on Fridays regardless of amount, thereby leaving no cash receipts in the District vault over the weekend.” Late Friday deposits should be made at the discretion of Accounting staff.**

Management Response: Management agrees the Investment and Banking Policy should provide more flexibility regarding criteria for making deposits. However, the flexibility should not be restricted to Friday deposits. The issues affecting practical business decisions regarding cost and benefit of daily deposits include the amount of cash on hand each day, prevailing interest rates, changing pay rates for employees and the location of an available bank branch. Policy should be amended to allow management to consider these factors and weight the costs and benefits of daily deposits to optimize the benefits net of costs.

Responsible Department: Finance and Administration

Estimated Completion Date: August 15, 2000

Tax Collector Excess Fee Refunds Not Received From Broward County

Tax Collectors are allowed to charge commissions for their services in accordance with formulas set forth in the Florida Statutes.² The withheld amount is approximately 2% of the tax revenues they collect. While commissions are deducted from each tax remittance throughout the year, a refund is typically made to the District after the end of each year to adjust the commissions withheld to the Collector's actual cost.

Florida Statutes require excess fees be refunded on a proportional basis after the end of each fiscal year. Title XIV – *Taxation and Finance*, Chapter 218 – *Financial Matters Pertaining to Political Subdivisions*, Chapter 218.36 – *County officers; record and report of fees and disposition of same.*— states:

(1) Each county officer who receives any expenses or compensation in fees, commissions, or other remuneration shall keep a complete record of all fees, commissions, or other remuneration collected by that county officer and shall make an annual report to the board of county commissioners within 31 days of the close of his or her fiscal year. Such report shall specify in detail the purposes, character, and amount of all official expenses and the amount of net income or unexpended budget balance as of the close of the fiscal year. All officers shall prepare such reports and subscribe under oath as to their accuracy and propriety.

(2) On or before the date for filing the annual report, each county officer shall pay into the county general fund all money in excess of the sum to which he or she is entitled under the provisions of chapter 145. Whenever a tax collector has money in excess, he or she shall distribute the excess to each governmental unit in the same proportion as the fees paid by the governmental unit bear to the total fee income of his or her office. Any excess held by a property appraiser shall be divided into parts for each governmental unit which was billed and which paid for the operation of the property appraiser's office in the same proportion as the governmental units were originally billed. Such part shall be an advance on the current year's bill, if any.

² Tax Collector and Property Appraiser commissions are established by Florida Statutes, Title XIV Taxation and Finance Chapter 192 Taxation: General Provisions sections 192.091 and 192.102.

As cited above, the Statute requires tax collectors to perform an accounting after the fiscal year end and distribute excess fees to each governmental unit in the same proportion as the fees collected to total fees collected. The following table reflects the taxes collected and related fees in Fiscal Year 1999 for the top six counties in the District.³

FY '99 Comparative Analysis Of Fees For Top Six Counties						
County	Taxes Collected	Gross Commissions	Fee Refunded	% Refund	Total Fees	Fee %
Miami-Dade	\$57,853,661	\$824,441	N/A	N/A	\$824,441	1.4%
Palm Beach	53,517,311	1,047,191	\$636,836	61%	889,218	1.7%
Broward	43,554,874	869,316	-0-	0%	1,082,296	2.5%
Lee	15,963,184	319,872	83,014	26%	368,312	2.3%
Orange	13,786,891	282,259	147,418	52%	286,897	2.1%
Collier	11,611,977	231,993	98,078	42%	242,454	2.1%

Miami-Dade does not have a separately elected Tax Collector or Property Appraiser. These functions are performed directly by the county commission. Their commissions include charges for both tax collector and property appraiser services. The commissions are based on an annual budget estimate of actual costs using the format established in the Statutes. For FY '99, this resulted in a commission of 1.4% of the taxes collected, which was in line with the higher 1.7% fee that Palm Beach County charged. Based on the average ratio of tax collector commissions to property appraiser fees for the other 15 counties, the combine 1.4% fee for Miami-Dade should be allocated 58% for tax collection and 42% for property appraising, resulting in a net cost of 0.83% for tax collector services. Palm Beach County's Tax Collector refunded fully 61% of the commissions they initially charged, resulting is a net cost of 0.77% of taxes collected.

Broward County has never remitted any excess fee refunds to the District. Broward County is a chartered county and does not have an elected tax collector; thus, the Board of County Commissioners performs the tax collection function through a division of their finance department. Broward County's commissions plus appraisal fees represent fully 2.5% of the taxes collected for the District. Unlike Miami-Dade, no consideration is given to the actual or approximate cost of tax collection. As a result, the District's cost for collecting ad valorem taxes from Broward County residents is 64% higher than in Miami-Dade County and 47% higher than in Palm Beach County.⁴

³ The top six counties account for almost 90% of the District's taxes. Therefore, we excluded all the remaining counties from this analysis.

⁴ Paradoxically, the Broward County Property Appraiser provides the District with the lowest proportionate fees of all other Property Appraisers.

Miami-Dade and Palm Beach counties are the only two comparable in size to Broward County. The weighted average cost for tax collection services for the comparable counties is 0.8% of tax revenues collected - 60% less than the 2% withholding rate permitted by state statutes. Based on the refunds received from the comparable counties, we estimated that the District should be receiving refunds of approximately \$520,000 per year from Broward County. Furthermore, statutes of limitation may permit potential recovery of past year excess fees back to FY1996, which could be as much as \$1,840,000.

Recommendation

- 6. Financial staff should request Broward County to provide and accounting of tax collection operations for the last four fiscal years and any applicable refunds.**

Management Response: The Department of Finance will request Broward County to provide an accounting of tax collection operations for the purpose of evaluating potential excess fee refunds. Based on the response from Broward County, Finance staff will make recommendations to Executive Management.

Responsible Department: Finance and Administration

Estimated Completion Date: August 15, 2000

APPENDIX

Investment Policy

Investment & Banking Policy⁵

1. The District shall invest all available funds:
 - a. In compliance with legal requirements
 - b. Giving due regard to the safety and risk of investment
 - c. To the maximum extent possible
 - d. At the highest rates obtainable at the time of investment
2. Investment decisions shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
3. The District in compliance with Sections 373.556 and 218.345 Florida Statutes may invest all available funds in:
 - a) United States Treasury securities unconditionally guaranteed by the full faith and credit of the United States Government
 - U. S. Treasury bills
 - U. S. Treasury notes or bonds maturing within five years,
 - b) United States Agency Obligations
 - Federal Home Loan Bank
 - Federal Farm Credit Bank
 - Government National Mortgage Association (Ginnie Mae)
 - Federal Home Loan Mortgage Corporation (Freddie Mac),
 - c) Repurchase agreements collateralized by U.S. Treasury securities with a market value of at least that of the amount invested. Repurchase agreements must be perfected by transferring the title of the underlying security to a third party safekeeping agent designated by the District,
 - d) General obligation bonds of any incorporated county, city, town, school district or road and bridge district located in the State of Florida,

⁵ Excluded from the Investment and Banking policy are Save Our Rivers, Preservation 2000 (P-2000), and deferred compensation program funds.

- e) Insured or fully collateralized certificates of deposit of banks and saving and loans association approved as a Qualified Public Depository under Chapter 280 Florida Statutes,
 - f) Money market accounts which are invested in United States Treasury securities unconditionally guaranteed by the full faith and credit of the United States Government. No investment shall be made with a maturity date which exceeds five years from the date of purchase.
4. The District may elect to deposit its surplus funds for investment in the trust fund administered by the State Board of Administration (SBA). This election will not impair the power of the District to hold funds in deposits accounts with financial institutions or to invest funds as otherwise authorized by law (Section 218.407 Florida Statutes). Authorized investments in the Local Government Surplus Funds Trust Fund range from United States Treasury securities backed by the full force and credit of the United States Government to real property (Section 215.47 Florida Statutes).
 5. The Governing Board shall designate a Treasurer who shall be custodian of all funds belonging to the Governing Board and to the District, and such funds shall be disbursed upon the order of, or in the manner prescribed by, the Governing Board by warrant or check signed by the Treasurer or Assistant Treasurer and countersigned by the Chairman or Vice Chairman of the Governing Board (Section 373.553 Florida Statutes). Facsimile signatures of the same are acceptable. The Governing Board may establish, by rule, a procedure for the disbursement of funds of the District by means of wire or electronic transfers.
 6. District cash disbursements of \$100,000 or greater shall have affixed to the check the manual signature of the Executive Director, the Deputy Executive Director, or Chief Financial Officer, in addition to the required facsimile signatures.
 7. The District shall establish and maintain bank accounts as necessary with financial institutions which have been designated by the Treasurer of the State of Florida as a Qualified Public Depository (Section 280.03 Florida Statutes).
 8. Banking services shall be monitored to ensure quality services at the least possible cost.

9. District cash and investment control accounts shall be reconciled within thirty (30) calendar days upon receipt of respective bank and investment account statements.
10. District cash receipts shall be deposited in the bank within twenty-four (24) hours upon receipt unless the aggregate daily receipt is less than \$40,000. All cash receipts will be deposited in the bank on Fridays regardless of amount, thereby leaving no cash receipts in the District vault over weekends.
11. A Treasurer's Report shall be submitted monthly to the Governing Board including monthly investment balance changes by fund, interest earned for the period, investment yield for the period, and cash flow analysis for the period.
12. An annual cash flow budget shall be developed, maintained, and monitored to maximize the available funds for investing.
13. Investments are recorded for accounting purposes at cost and interest income is accrued for the period.