

**Report to the Hennepin County Board of Commissioners
Regarding Investment Oversight Processes
4th Quarter 2018**

General oversight

The Hennepin County investment function is managed by the Treasury and Investment Officer and designated staff, which includes regular consultation with the Chief Financial Officer. The investment function follows the practices described in the OBF Investment Policy which is maintained by the Office of Budget and Finance, and revised with concurrence of the Investment Policy Advisory Committee. The Investment Policy Advisory Committee is an ad hoc group with community members having expertise that provides investment staff with both insights on financial markets and feedback on the investment strategies of the County. Input from this Committee is limited to policy and overall strategy, but does not include day-to-day oversight of individual transactions.

The Investment Policy Advisory Committee has endorsed the continuation of the current investment strategy including the continued usage of the additional investment authority in Minnesota Statute 118A.07 at its October 19, 2018 meeting.

In addition to the Investment Policy Advisory Committee, there are several other oversight processes in place to monitor the investment activity of the County. These additional oversight processes are completed by a variety of entities. These entities are both internal and external and are listed below.

Internal oversight

The Resident and Real Estate Services Department staff tracks investment activity on a daily basis by receiving broker confirmations and reconciling with bank statements. With this process, it monitors the daily investment balance and ascertains that the size of the portfolio is within the parameters defined within both state law and internal investment policy guidelines.

Audit, Compliance and Investigation Services periodically reviews the investment process in the normal course of its audit activities, and receives the review of banking and investment activities in the annual audit schedule by the external auditor. In 2018, ACIS completed a review of data security practices in treasury activities. It also assists reviews made by the State Auditor's Office on the legal compliance of the investment program.

The Accounting Division of OBF provides monthly reports on investment activities including transaction volumes, earnings, monthly and annualized yields, benchmarks, and investment balances to the Director of Budget & Finance, the Internal Auditor, the Controller and investment staff.

External oversight

The County's external auditors review the County's investment practices during the course of the annual audit and preparation of the financial statement. They review investment balances and legal compliance, compliance with applicable accounting standards, and they test internal controls. Review of the investment activity is a part of the audit, but it is not handled as a separate audit specific to investment activity. Therefore the external auditors express no opinion related to the investment function or strategy, but would note any significant exceptions in the management letter.

The County's investment activity is also reviewed by the credit rating services. When the County issues bonds, the rating services review the County's investment practices. Currently, the County prices the market value of the portfolio on a monthly basis as compared to the book value of the portfolio and makes that available to rating agencies during ratings discussions. In conjunction with the County's commercial paper issuance program, the County also complies with monthly liquidity reporting procedures required by certain credit rating agencies. This reporting allows investors to judge the County's ability to repay its short-term liabilities. Once a year, Standard & Poors' Banking Analysis section conducts a liquidity review and affirms the county's short-term rating on its commercial paper certificates which has been at the highest rating, A-1+, since the inception of the commercial paper program. Fitch Ratings also has given its highest short-term rating, F1+, to the county's commercial paper certificates.

During the course of the year, the County provides to various information to its investors, creditors, and counterparties, as they request it, which often includes information on the County's investment balances and practices. In addition, our continuing disclosure agreements now require that any events of a material nature be disclosed to interested parties. This disclosure is conducted through a public portal of the Municipal Securities Rulemaking Board called Electronic Municipal Market Access. Additionally, as defined by Securities and Exchange Commission rules, the OBF has adopted the RFP process to comply with rules on municipal advisory requirements for the investment of bond proceeds. The information is posted on the county website.