



# **Finance Committee Standard Operating Procedures**

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## **Introduction**

In every conversation we have, every initiative we explore, and every action we take, we must hold them up against PRISM's Mission, Vision and Core Values. Together, the Mission, Vision and Core Values are our strategic framework and clarify why PRISM exists and what we aim to be. As you review this document, please keep these in mind:

### **Mission:**

The Public Risk Innovation, Solutions, and Management is a member-directed risk sharing pool of public agencies committed to providing risk coverage programs and risk management services, which drive member stability, efficiency, and best practices.

### **Vision:**

The Public Risk Innovation, Solutions, and Management (PRISM) will continue to be internationally recognized as a leading risk sharing pool for its member-directed operating philosophy and commitment to member fiscal sustainability. PRISM will continue to influence and shape the future of the risk management profession.

### **Core Values:**

PRISM is dedicated to preserving a member-directed culture, defining standards for quality and performance throughout the industry, and ensuring programs and services are:

- **C**ompetitive in scope and price over the long term
- **A**daptable and customized to meet member needs, based on high-quality standards
- **R**esolute in delivering timely solutions that address present and emerging risks
- **E**quitable in allocating costs and services between various members in a fair and consistent manner
- **S**table in supporting cost-effective, fiscally prudent operations *and* long-term solvency, and in building long-term relationships with members and program/service partners.

## **Composition**

The Committee consists of nine (9) members, seven (7) of which are voting members, and two (2) are alternates who are eligible to vote at any meeting where a voting member is absent. Of the seven voting members, designated Public Entity representative is also a voting member. Individuals serving on the Finance Committee generally have a financial or investment background and are participants in various PRISM programs.

Reference: [Committee Composition](#)

## **Roles**

### **Committee:**

The Finance Committee is responsible for overseeing the investment program for trust monies, as well as the accounting and internal control systems of PRISM. The Committee shall serve in an advisory capacity to the Executive Committee and Board, and recommend policies, procedures and practices to be implemented regarding various financial matters of PRISM.

The Committee is responsible for the following, much of which is outlined in the Bylaws:

- Reviewing budgets
- Reviewing financial statements on a quarterly basis
- Reviewing the Annual Comprehensive Financial Report (ACFR) on an annual basis
- Approving the external auditor for the annual audit
- Reviewing the annual Auditor's Report and other communications from the external auditor
- Making recommendations regarding the Investment Policy
- Making recommendations regarding the accounting and internal control systems which monitor the safeguarding of the PRISM's assets
- Recommending for approval the Treasurer of PRISM
- Acting as the Audit Committee for the PRISM
- Preliminary Review of the strategic finance related decisions and make recommendations to the Executive Committee. For example, formation and expansion of the Captive, mergers and acquisitions etc.

From time to time, the Committee may consider contracting with outside parties for services. PRISM's Executive Committee has adopted a Service Provider Contracting Policy which outlines the process for competitive bidding as well as protocols and authorities for entering into such contracts. The Finance Committee is responsible for determining whether a competitive selection process should be used for procurement of any new member service offerings or a new service provider for an existing member service in excess of \$50,000. Any renewal contract must go to the Committee for approval of the vendor and the amount to be expended.

The Finance Committee has oversight of the following contracts:

- Chandler Asset Management, Investment Management
- Gilbert CPAs., Financial Auditor
- McLeod & Watts Actuary, Actuarial
- US Bank, Operating and Investment Accounts

Reference: [PRISM Bylaws, Article VI, Section 1\(c\)](#)

Reference: [Service Provider Contracting Policy](#)

**Chair:**

- Call/authorize meeting to be scheduled
- Staff will contact Chair to arrange date, time, location (in-person or virtual)
- Once authorized, staff will notify the Committee members via e-mail
- Call the meeting to order
- Orchestrate agenda items
- Recognize members to facilitate orderly debate
- Preside over voting
- Enforce rules of the group
- Expedite the business of the group
- Declare meeting adjournment
- Attend the PRISM's Annual Strategic Planning Retreat
- Conduct meetings according to Robert's Rules of Order and the Brown Act

**Vice Chair:**

- Assume the responsibilities of the Chair in their absence

**Staff:**

- Assist Chair in facilitating meeting, preparing agendas, taking minutes, and summarizing meetings for those not in attendance
- Advisory to the Committee
- Will make recommendations to assist Committee
- Execute Committee's directions
- Prepare various accounting documents including all of the program actuarial reports except PRISMHealth Program, budgets, interim financial statements and the Annual Comprehensive Financial Report (ACFR) and Popular Annual Report for review of the Committee
- Prepare quarterly investment reports and investment policies for review of Committee

**Consultants:**

The independent CPA firm, Gilbert CPAs, hired for the annual audit acts as a consultant to the Finance Committee. The auditors prepare a "Communication with Those Charged with Governance" letter that is reviewed with the Finance Committee, who serves as the Audit Committee of the PRISM. This letter will address any concerns the auditors find during the audit. In addition, the auditor provides a "Report on Internal Control over Financial Reporting and on Compliance". These reports along with the auditor's opinion and other analysis provide significant insight into the accounting for, and results of operations.

Chandler Asset Management is contracted to provide investment services to PRISM. In addition, Chandler works with PRISM staff to manage liquidity and provide periodic review of our investment policy.

The accounting staff also uses an actuary to calculate the liability for Other Post-Employment Benefits (OPEB). CalPERS provides any actuarial analysis of our retirement benefits liability.

MacLeod & Watts Actuaries, provide actuarial services on Other Post-Employment Benefits liabilities (OPEB) while CalPERS provides actuarial services on retirement benefits liability (Pension).

Reference: [Communication with Those Charged with Governance Letter 6/30/2024](#)

Reference: [Report on Internal Controls 6/30/2024](#)

## **Responsibilities**

### **Budgets:**

The Finance Committee oversees the budget process and reviews the budget for recommendation to the Executive Committee and Board of Directors at PRISM June meetings. All program budgets are combined into a PRISM Wide Budget. If changes warrant a Revised Budget, the Finance Committee will review it and make recommendations to the Executive Committee and Board of Directors at the March meetings, and at any other time as necessary. Per California Government Code 61110-61119, only the Board of Directors has final authority to adopt or revise the PRISM Wide Budget.

The Committee establishes the major categories of expense as the legal limit of budgetary control. The Committee also establishes the format of the budget and made various recommendations regarding budgetary matters.

The Finance Committee has direct oversight of the General Administration and Building Budgets. These cover PRISM's operating costs that are allocated to the programs based on various methodologies determined by the Committee. The Finance Committee reviews each line item on these budgets. The Personnel Subcommittee makes recommendations to the Executive Committee regarding the line items for Salaries and Benefits. Finally, these costs are transferred to the programs by means of various allocations such as the General Administration and Web-Enabled Claims System allocations. The Finance Committee decides what factors to take into account in crafting the allocation. The most recent recommendation was to use the time study exclusively to allocate General Administration and Loss Prevention costs, exclusive of Web-Enabled Claims System costs. (4/21/08 Minutes, Item 3.C., Budget). The most recent allocation methodology was affirmed in 2010 (4/22/10 Minutes, Item 3.B., Time Study Allocation).

As part of the oversight of the General Administration Budget, the Finance Committee is also responsible for the annual review of the General Administration Program Budget Policies. As part of the process for obtaining the Government Finance Officers Association (GFOA) Award for a Distinguished Budget, program budget policies, including both short and long term goals, have been incorporated (4/22/19 Minutes, Item 3.B.).

The Finance Committee also reviews the major insurance program budgets and the Miscellaneous Program budget. The Executive Committee and the appropriate program committees determine how to finance the risk associated with each program. They adopt a premium allocation which includes the major budget line items for transferred and retained risk and all associated program support costs. The role of the The Finance Committee is to review the program budgets and make recommendations regarding format and proper application of accounting practices. For instance, the Finance Committee recommended establishing program committee discretionary accounts, and an Executive Committee discretionary account in the General Administration Budget (4/22/05 Minutes, Item 3.B., Committee Discretionary Accounts). In another instance, the Finance Committee has directed staff to estimate the Provision for Insured Events for Prior Years using the program discount rate and to include the target funding level on the document for reference (5/19/10 Minutes, Item 3.D.).

Reference: [Budget Preparation and Management Policy \(Res. No. B12-003\)](#)

Reference: [4/21/08 Finance Committee Minute Order](#)

Reference: [4/22/10 Finance Committee Minute Order](#)

Reference: [4/22/19 Finance Committee Minute Order](#)

Reference: [4/22/05 Finance Committee Minute Order](#)

Reference: [5/19/10 Finance Committee Minute Order](#)

Reference: [Joint Powers Agreement, Article 15](#)

Reference: [Governance Organizational Chart](#)

Reference: [2024/25 Adopted Annual Budget](#)

In 2016, PRISM established Captive insurance company, the PRISM Affiliate Risk Captive, (ARC) domiciled in Utah. PRISM Affiliate Risk Captive is a component unit of PRISM and consolidated with the PRISM's financial results. The ARC has its own Board of Directors appointed by the Executive Committee. The Finance Committee sits as the ARC Audit Committee (5/4/18 ARC BOD Meeting Minutes, 3.A.)

Reference: [5/4/2018 ARC Board of Directors Minutes 3.A.](#)

### **Financial Statements:**

PRISM's annual ACFR and quarterly financial statements are reviewed by the Finance Committee quarterly, on the basis of accuracy, transparency and compliance with the Generally Accepted Accounting Principles (GAAP). The

Committee will make recommendations to staff regarding format and policies as needed. The ACFR is submitted to Government Finance Officers Association at the end of each calendar year. PRISM has been awarded the Certificate of Achievement for Excellence in Financial Reporting continuously since 1994.

Reference: [ACFR FY Ended 06/30/2024](#)

### **Internal and External Audits:**

The Committee has the responsibility to recommend for approval an external auditor and typically will issue a Request for Proposal (RFP) for Financial Audit Services every three (3) to five (5) years. The most recent RFP was issued in December 2013, and external auditor, Gilbert CPAs, was selected in February 2014 (2/13/14 Minutes, Item 4.D.) for an initial three (3) year period ending June 30, 2017. The Committee has since reviewed the need to request an RFP, and has chosen to remain utilizing the external auditor Gilbert CPAs. At the December 1, 2016 meeting the contract was extended for another three years (12/1/16 Minutes, Item 3.B.). Per the California Government code 12410.6(c), to prevent a company from using the same audit partner auditing the financial statement for more than 6 years, the lead partner at Gilbert CPAs was transitioned from Kevin Wong to Peggy Vooren. At the February 12, 2020 meeting, the Finance Committee extended Gilbert CPAs contract for one year until June 30, 2020 for services under the new partner to be evaluated (2/12/20 Minutes, Item 4.E.). The contract with Gilbert CPAs was extended twice with Kevin Wong returning as the lead partner. At the February 11, 2021 meeting, the Finance Committee extended the Gilbert CPAs contract for three years through June 30, 2023 (2/11/21 Finance Committee Minute Order 4.D.). At the February 3, 2024 meeting, the Finance Committee extended the Gilbert CPAs contract for an additional three years through June 30, 2026 (2/13/24 Finance Committee Minute Order 4.F.). The contract will include a peer review of the actuarial estimates since actuarial services are performed in-house starting with the 2016/17 fiscal year. In addition, the contract includes providing any necessary audit services for ARC.

Sitting as the Audit Committee for PRISM and for the Captive (ARC), the Finance Committee will review the Annual Comprehensive Financial Report (ACFR) and the ARC's audit report; and make recommendations based on the required communications to the Committee from the external auditor. These communications include the Independent Auditor's Report, the Reports on Internal Control, Management Letter, and the Communication with those Charged with Governance for both PRISM and ARC.

Reference: [2/13/14 Finance Committee Minute Order](#)

Reference: [12/1/16 Finance Committee Minute Order](#)

Reference: [2/12/20 Finance Committee Minute Order](#)

Reference: [2/11/21 Finance Committee Minute Order](#)

Reference: [2/13/24 Finance Committee Minute Order](#)

### **Investment Program:**

Annually, the Board of Directors reviews an Investment Policy. The Committee is charged with reviewing and recommending any changes to the Policy. The Investment Policy covers types of investments allowed, limits on categories by type and institution, quality (based on rating agency) of investments that can be held, measurement focus of the portfolio and other investment matters.

The Finance Committee formed an ad hoc committee to issue a Request for Proposal (RFP) for an external investment management services in May 2014 (5/15/14 Minutes, Item 3.C.). Chandler Asset Management was chosen to provide investment management services in December 2014 (12/4/14 Minutes, Item 3.C.) for an initial period of 3 to 5 years. Chandler was also granted the contract for investment management services for the ARC by the ARC Board of Directors. At the September 24, 2020 meeting, the Finance Committee extended the contract with Chandler Asset Management as Portfolio managers for both PRISM and ARC through June 30, 2024 (9/24/20 Minutes, Item 4.B.). At the April 10, 2024 meeting, the Finance Committee extended the contract with Chandler Asset Management as Portfolio managers for both PRISM and ARC through June 30, 2027 (4/10/24 Minutes, Item 3.F.).

As part of its governance, the Finance committee will meet with the Investment Advisor quarterly to review investment objectives, discuss interest rate/yield trends and review the investment performance against benchmarks established in the Investment Policy (Investment Policy, page 1). At the September 26, 2022 meeting the policy was amended to authorization participation in the California Asset Management Program (CAMP). This participation was approved to provide PRISM with another option in addition to Local Agency Investment Fund (LAIF) for investment of liquid funds (9/26/22 Minutes, Item 3.A.). At the December 18, 2023 meeting the policy was further amended to allow up to \$75 million deposit in CAMP consistent with the maximum allowed deposit for LAIF (12/18/23 Minutes, Item 3.C.). Chandler also reports to the ARC Board of Directors on an annual basis.

Reference: [Investment Policy](#)

Reference: [5/15/14 Finance Committee Minute Order](#)

Reference: [12/4/14 Finance Committee Minute Order](#)

Reference: [9/24/20 Finance Committee Minute Order](#)

Reference: [9/26/22 Finance Committee Minute Order](#)

Reference: [12/18/23 Finance Committee Minute Order](#)

Reference: [4/10/24 Finance Committee Minute Order](#)

### **Accounting and Internal Control Systems:**

The Committee oversees the Accounting and Internal Control systems of PRISM, and is aided in this task by the external auditor's report on internal control. By reviewing the Budget and Financial Statements, the Committee has insight into



how well accounting processes and budgetary controls are functioning within PRISM.

Some of the policies include:

- Check signing authority (12/13/06 Minutes, Item 3.D.) Two (2) signatures are required for checks of \$30,000 or more. Signers are the CFO, CEO, COO, the President, and the Vice-President.
- Use of Positive Pay to prevent check fraud (7/23/04 Minutes, Item 3.B.).
- Petty cash limited to \$300 (12/10/92 Executive Committee Minutes, Item V.D.).
- Raised the capitalization threshold to \$5,000. (4/17/14 Minutes, Item 3.A.)

Reference: [12/13/06 Finance Committee Minute Order](#)

Reference: [7/23/04 Finance Committee Minute Order](#)

Reference: [12/10/92 Executive Committee Minute Order](#)

Reference: [4/17/14 Finance Committee Minute Order](#)

In addition, the Committee may make recommendations regarding a broad range of financial policies. Some of the major financial organizational policies are:

Interfund Borrowing Policy:

This policy established by the Board allows one program to borrow treasury funds from another program and requires the borrowing program to pay interest at the projected estimated rate to be earned by the treasury (3/1/02 Board of Directors Meeting Minutes, Item IV.D.). At the September 26, 2022 the committee voted to add a spread to future rate calculations that take into account current market rate environments where interest rates are poised to increase (9/26/2022 Minutes, Item 3.B.). This rate is set each year at the March Board meeting for the next fiscal year. The rate of 4.75% was set at the March 2024 Board of Directors meeting for the 2024/2025 fiscal year (3/1/2024 Board of Directors Meeting Summary, Other Matters).

Reference: [3/1/02 Board of Directors Minute Order](#)

Reference: [9/26/22 Finance Committee Minute Order](#)

Reference: [3/1/24 Board of Directors Minute Order](#)

Invoicing and Premium Payment Policy:

This Policy authorizes an assessment of a late fee for all invoices issued by PRISM and authorizes the Executive Committee the ability to issue a 10-day notice of cancellation for non-payment of premium. The late fee is equal to the rate established by the Inter-fund Borrowing Policy (currently set at 2.1%) plus 4% (See Resolution No. B12-002).

Reference: [Invoicing and Payment Policy \(Resolution No. B12-002\)](#)

Travel Reimbursement Policy:

This Policy was originally approved by the Executive Committee authorizing expense reimbursement for Board and Committee members. Receipts are required for airfare, hotel accommodations and all expenses over \$25. Mileage is reimbursed at the IRS rate and per diem, in lieu of receipts for meals and incidentals, is reimbursed at the IRS rate for PRISM office location. Executive Committee also authorized PRISM to reimburse new members to PRISM for their expenses to attend Board and Committee meetings, at the discretion of staff, to encourage new member participation PRISM is authorized to reimburse travel expenses of prospective members attending a committee meeting or other PRISM events PRISM is also authorized to reimburse travel expenses and other meeting related expenses for members who may not be serving on a committee, but would be interested in doing so in the future. At the April 22, 2019 meeting, the policy was amended to allow staff to invoice for late cancellations and no-shows (4/22/19 Minutes, Item 3.D.).

Reference: [PRISM Travel Reimbursement Policy](#)

Reference: [4/22/19 Finance Committee Minute Order](#)

Treasurer of PRISM:

Pursuant to Government Code Section 6506.6 and in accordance with Article 16 of the Agreement, the Board (with the recommendation of the Executive Committee) appoints the Chief Financial Officer to the position of Treasurer, who shall comply with the provisions of Government Code Section 6505.5 (a-d) (See PRISM Bylaws, Article XII, and Section 1).

Reference: [PRISM Bylaws, Article XII, Section 1](#)

Reference: [PRISM Joint Powers Agreement, Article 13 \(b\)](#)

## **Meetings**

### **Code of Conduct/Ethics Policy**

The Board has adopted a Code of Conduct, which is applicable to all members, staff, committees and the Board.

Reference: [Code of Conduct](#)

### **Scheduling**

The Finance Committee generally meets 5 times annually at the PRISM office, unless the Committee chooses a different location or chooses to conduct the meeting virtually. Additional Committee meetings may be called by the Chair. The Chair will attempt to schedule meetings with two months' notice. The general schedule of meetings is:

- **February:**
  - The Committee reviews, revises and makes recommendations to the Executive Committee and Board on the revised budget for the current fiscal year. The internal borrowing rate is reviewed and a recommendation made to the Executive Committee and Board.
- **April:**
  - The Committee reviews and gives direction on the General Administration budget for the upcoming fiscal year.
- **May:**
  - The Committee reviews and makes recommendations to the Executive Committee and Board for approval of the budget for the upcoming year.
- **August or September:**
  - The Committee meets with outside auditors for purposes of audit planning.
- **December:**
  - The Committee meets with the external auditor, reviews the ACFR and provides direction to staff based on their review.

In addition to the above agenda items, the Committee reviews interim financial statements, reviews the investment program and any other finance related matters.

## **Quorum**

Pursuant to the Bylaws, a quorum consisting of a majority of the Committee is necessary to start and conduct a meeting, minimum of 4 members (See PRISM Bylaws, Article VI, Section 4).

Reference: [PRISM Bylaws](#)

## **Voting**

### **Voting Requirements**

Pursuant to the Bylaws, the voting requirement is a majority of the Committee (at least 4 members) for all actions of the Finance Committee (See PRISM Bylaws, Article VI, and Section 4).

### **Conflicts**

Pertinent PRISM Code of Conduct Provisions:

1. We are committed to the concepts of democratic, effective and efficient governance by responsible, knowledgeable members of the Board of Directors and Committees, with an understanding that official decisions made, and actions taken by PRISM, are always made in the best interests of PRISM's membership, as

opposed to the interests of the PRISM's staff, service providers, or other outside interests.

2. We are committed to the principle that conflicts of interest (defined as situations in which a person has a financial or other interest or the appearance of a conflicting interest that would call into question the person's ability to act in an impartial manner, with respect to a matter affecting PRISM) should be avoided and where present shall be fully disclosed. This includes situations when a member of the Board, a committee, staff, or vendor has personal interests (including those of his/her family) that are contrary to his/her loyalty to PRISM.

#### Vote on behalf of PRISM or the Entity I Represent?

Attorney General Opinion No. 00-708 dated 12/8/00, concluded that a member of the governing board (in this case the Finance Committee) of a joint powers agency, may cast a valid vote on a matter before the agency that is inconsistent with the position by the legislative body which appointed the member.

Reference: [Attorney General Opinion No. 00-708](#)

#### Voting When Conflict Arises

According to FPPC:

- Disqualification
  - For financial interest (exception when action required)
- Abstention
  - Conflicting loyalties
  - Perception you can't be fair
  - Ethical dilemmas (exception for necessity to take action)

According to Roberts Rules of Order:

- Duty to vote if you have an opinion
- Right to abstain
- Personal interest - must abstain except:
  - Vote for self in an election
  - Vote if other's interests are included in the motion

## **Glossary of Terms**

**ACFR (Annual Comprehensive Financial Report):** The PRISM wide financial statements including the following: Management's Letter, Management's Discussion and Analysis, Independent Auditor's report, Financial Statement with footnotes, Required Supplemental Information, individual program financial schedules, and a Statistical Section. These meet the highest standards of reporting required by the Government Finance Officers Association (GFOA) for Certificate of Achievement for Excellence in Financial Reporting.

**California Asset Management Program (CAMP):** A California Joint Powers Authority (“JPA”) established in 1989 to provide California public agencies with professional investment services. The CAMP pool is an alternative to Local Agency Investment Fund (LAIF) and is managed with shorter duration than LAIF.

**Captive Insurance Company:** A captive insurer is generally defined as an insurance company that is wholly owned and controlled by its insureds; its primary purpose is to insure the risks of its owners, and its insureds benefit from the captive insurer's underwriting and investment profits.

**Financial Statements:** The general term that includes the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows.

**Footnotes:** Explanatory material that provides additional detail and information to the reader of the Financial Statements. Some, but not all, footnotes to a financial statement may be required.

**GAAP (Generally Accepted Accounting Principles):** The common set of principles and standards regarding the correct recording and reporting of financial transactions.

**GFOA (Government Finance Officers Association):** The professional organization of Finance Officers of the United States and Canada which oversees a professional awards program, particularly the Certificate of Achievement for Excellence in Financial Reporting and the Certificate of Achievement in Popular Reporting. Each program is peer reviewed by other Finance Officers and has stringent criteria for the respective awards which are recognized nationally. PRISM participates in both programs.

**Local Agency Investment Funds (LAIF):** A money market fund managed by the California State Treasurer.

**Popular Annual Financial Report:** A supplementary financial report that presents a high-level view of PRISM's financial information in an easy-to-understand format. This is otherwise known as PRISM's Annual Report.

**Positive Pay:** A banking control that authorizes the bank to clear a check only when it has matched the check against a check issued file, which is maintained by PRISM's accounting staff.

**Provision for Insured Events:** The allowance for pooled claims.

**Report on Internal Control:** A report required by auditing standards that is prepared by the independent auditor, which presents an assessment of the effectiveness or weaknesses of PRISM's internal control processes.

**Required Supplementary Information:** Additional schedules required by various accounting standards for a complete understanding of the financial statements. For instance, as a risk pool we are required to include a “Reconciliation of Unpaid Claim Liabilities.” Because we have multiple programs that we account for separately, we provide “Combining Statements” which show on one statement, but in separate columns, the separate components by program that make up the entire amount on the “Combined Statement” or government wide statements.

**Retained Risk:** The portion of risk that the pool self-funded.

**Statement of Cash Flows:** The reconciliation of the inflows and outflows of cash and other current assets during the period covered by the Statement of Revenue, Expenses and Changes in Net Position.

**Statement of Net Position:** The balance sheet at a specific point in time. Assets (what we have) minus liabilities (what we owe) is Net Position.

**Statement of Revenue, Expenses and Changes in Net Position:** The Income Statement that reports the results of operations over a period of time.

**Target Equity:** The range of net assets that various governing committees decide is appropriate.

**Transferred Risk:** The portion of risk, insured or reinsured, by a private insurer or reinsurer.