

COMPREHENSIVE INVESTMENT POLICY

FOR THE
STATE OF FLORIDA



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Section 1

INTRODUCTION

Article I

General Overview

The Chief Financial Officer (“CFO”) has a statutory duty to fully invest or deposit State funds in order that the State may realize maximum earnings and benefits. The Florida Division of Treasury (“Treasury”) manages monies belonging to State Agencies and other entities created by Florida State Constitution or Law (Special Purpose Investment Accounts (“SPIA”)). The Treasury’s principal investment management objectives, in descending order of priority, are as follows:

- Provide Liquidity
- Preserve Principal
- Provide Incremental Income

This Comprehensive Investment Policy (“CIP”) sets forth the general principles that govern the investments and investment personnel of the Treasury.

The investments are allocated among seven Treasury investment portfolios/programs:

1. Internal Liquidity Portfolio
2. Internal Bridge Portfolio
3. Internal Intermediate Portfolio
4. External Investment Manager Program
5. Short-Term Investment Account
6. Securities Lending Program
7. Certificates of Deposit Program

Collectively, these Treasury investment portfolios/programs are referred to as the “Investment Pool”.

The Treasury will present updates to the CIP to the Treasury Investment Committee (“Committee”) for review annually or as needed. The Director of the Division of Treasury has final approval authority for the CIP.

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Article II

Governing Authority

Investment Authority

Section 17.58(1), Florida Statutes, requires that all monies collected by State Agencies, boards, bureaus, commissions, institutions, and departments shall, except as otherwise provided by law, be deposited in the Treasury.

Section, 17.61(1), Florida Statutes, provides that the CFO shall invest all general revenue, trust funds and agency funds of each State Agency and the judicial branch. Funds for investment and reinvestment shall be considered investment funds and not funds on deposit, and such funds shall be exempt from the provision of Chapter 280, Florida Statutes.

Section 17.57(1), Florida Statutes, provides that it is the duty of the CFO, consistent with the cash requirements of the state, to keep such money fully invested or deposited as provided within this Statute in order that the State may realize maximum earnings and benefits. The CFO shall make funds available to meet the disbursement needs of the State.

Allowable Investments

Section 17.57(2), Florida Statutes, establishes the allowable investments for funds within the Treasury.

Securities Lending Program

Section 17.61(1), Florida Statutes, provides that securities or investments purchased or held under the provisions of section 17.57(2) may be loaned to security dealers and banks, provided that the loan is collateralized by cash or US government securities having a market value of at least 100 percent of the market value of the securities loaned.

Advisors

Section 17.57(2), Florida Statutes, provides that the CFO may hire registered investment advisors and other consultants to assist in investment management.

Special Purpose Investment Account (SPIA)

Section 17.61(1), Florida Statutes, provides that the CFO may invest, upon request, funds of any board, association, or entity created by the State Constitution or by Law by the procedure and in the authorized securities prescribed in Section 17.57(2), Florida Statutes.

Investment Fees

Section 17.61(4)(b), Florida Statutes, provides that the CFO shall make an annual assessment of 0.12 percent against the average daily balance of SPIA and Trust Funds and 0.20 percent against the average daily balance of those funds requiring investment in a separate account.

Treasury Investment Committee

Section 17.575, Florida Statutes, creates a Committee consisting of at least five members who shall administer the Treasury Investment Program consistent with policy approved by the CFO for deposits and investments of public funds.

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Section 2
OPERATIONAL STRUCTURE

Article III

Treasury Organization Structure

The CFO has a statutory duty to fully invest or deposit State funds in order that the State may realize maximum earnings and benefits. This responsibility is performed within Treasury's Bureau of Funds Management's Internal Investment Section and External Investment Section.

Routine investment and operational decisions are made by the Investment Work Group. The Investment Work Group consists of the Director of the Division of Treasury, the Chief of the Bureau of Funds Management, the Financial Administrator for Internal Investments and the Financial Administrator for External Investments. The Investment Work Group reports quarterly to the Committee.

Significant investment and operational decisions are approved by the CFO based on recommendations by the Investment Work Group and comments by the Committee.

Article IV

Investment Work Group

Section 17.57(1), Florida Statutes, provides that it is the duty of the CFO, consistent with the cash requirements of the State, to keep the State money fully invested in order that the State may realize maximum earnings and benefits. Responsibility for the operation of the Investment Pool has been delegated to the Investment Work Group, who shall act in accordance with established written procedures and internal controls for the operation of the Investment Pool consistent with this CIP.

The Investment Work Group should meet weekly to discuss and act upon daily operational and investment items. Examples of items the Investment Work Group discusses/reviews:

- Compliance issues
- Investment strategies
- External manager activity and/or concerns
- Portfolio performance and characteristics
- Treasury operational issues
- Investment items as defined in Article XVII
- Investment policies
- Security lending activity
- Monthly economic data
- Headline risk items

Matters related to the roles of the Committee (see Article V) are developed by the Investment Work Group and presented first to the Committee for comment and then to the CFO for approval.

In relation to matters of an urgent nature, the Investment Work Group may present the information directly to the CFO for approval. Such decisions will be presented to the Committee at the next regularly scheduled meeting.

Article V

Treasury Investment Committee

Purpose: The Treasury Investment Committee (Committee) is established pursuant to Section 17.575, Florida Statutes. The Committee shall assist the Investment Work Group and the CFO by providing guidance on high level investment related matters, including policy and strategy matters and review of performance relative to objectives.

Membership: The Committee shall consist of at least five members who must possess special knowledge, experience, and familiarity in finance, investments, or accounting. The members of the Committee shall be appointed by and serve at the pleasure of the CFO. Members shall serve terms of two years. Members are permitted to serve more than one term. The Committee shall annually elect a chair and vice chair from among its membership. Members of the Committee shall serve without compensation but shall be entitled to receive reimbursement for per diem and travel expenses as provided in Section 112.061, Florida Statutes.

Responsibilities:

- Understand the Treasury's purpose and investment goals.

Review and provide guidance to the Investment Work Group and CFO on the investment policies, general investment strategies and performance of the Treasury Investment Pool.

Roles

- Provide policy guidance to the Investment Work Group.
- Review and recommend for approval policies developed and/or updated by the Investment Work Group governing the Treasury's investment portfolios.
- Review changes to investment benchmarks or other measurement devices employed by the Treasury to monitor the performance of its investment portfolios.
- Evaluate investment performance of the investment portfolios based on a comparison of actual returns with established return objectives.
- Review investment strategy changes proposed by the Investment Work Group.
- Perform such other responsibilities regarding the Treasury's investment activities, policies or other matters as may be assigned to the Committee.

Attendance at Committee Meetings:

The Investment Work Group shall set the schedule of meetings. The Committee should meet at least four times per year. However, special meetings may be called. Special meetings should be requested through the Committee Chair. Notices of meetings shall be posted in compliance with appropriate laws. In recognition of the importance of the work of the Committee, regular attendance at the Committee meetings is expected from all members. Attendance may be in person or by means of a conference call or other communications equipment by means of which all persons participating in the meeting can hear each other. A majority of the members of the Committee present at a meeting shall constitute a quorum for the transaction of business. The action of the Committee shall be determined by the vote or other affirmative expression by the majority of its members in attendance where a quorum is present.

Agendas and Other Meeting Materials:

An agenda shall be prepared for each regular and special meeting of the Committee. The agenda shall set forth those items upon which the Committee anticipates taking action or discussing. Each agenda item shall have attached backup material necessary for discussion or action by the Committee. A copy of the agenda and backup material shall be furnished to each Committee member prior to commencement of the meeting. Minutes outlining decisions shall be maintained and held by the Treasury. The Treasury shall record all acts and determinations of the Committee, and all such records shall be preserved in the custody of the Treasury. Such record and documents shall be open at all times for inspection.

Appearance before the Committee:

All persons who are scheduled to make appearances before the Committee shall be scheduled through the Treasury Division Director, who may establish the time limits for such appearances. Appearances before the Committee may be in person or through a representative.

Ethics:

- Committee members must always exercise care and caution to place the interests of the Treasury before their own.
- No Committee member may influence the investment decision making process of the Treasury for personal gain or private advantage or in a manner detrimental to the interests of the Treasury.
- Committee members must avoid actions or activities that bring into question that person's independence of judgment with respect to the execution of professional responsibilities.
- Committee members shall not own, be directly affiliated with or compensated by a current vendor or a vendor seeking to do business with the Treasury.

Committee members must follow appropriate State of Florida laws:

Committee members are required to follow all Florida laws related to Committee member conduct.

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Section 3
OPERATIONAL POLICIES

Article VI

Investment Goals

The Treasury's principal investment goals, in descending order of priority, are as follows:

Liquidity

The Treasury must be in a position to meet all cash outflow needs of the State and SPIA. While it is essential to invest all available funds, it is equally essential for the Treasury to maintain sufficient liquidity to provide for expected disbursement demands plus a level of other unforeseen outflows.

Preservation of Principal

The investment of funds by the Treasury must be performed with the emphasis on preservation of principal over return on investment. All investments are subject to risk. The primary types of risks are credit risk, interest rate risk, sector risk, manager risk and derivatives risk. Investment decisions should be made with a focus on minimizing these risks in line with each portfolio's objective. A risk/return analysis should be conducted at the portfolio and Investment Pool level as needed based on the current economic conditions and the State's needs.

Incremental Income

The Treasury will invest excess funds to provide incremental income while considering liquidity needs and monitoring risks as provided above. Some methods employed by the Treasury to provide incremental income are:

- Appropriate allocation among the Investment Portfolios
- Active Investment Management
- Securities Lending Program

The Investment Pool is managed so as to avoid any instance of negative monthly income.

Article VII

Portfolio Allocation

The target allocation of Treasury funds will be implemented based on the following principles:

Certificates of Deposit - Funds will be placed in certificates of deposit at Qualified Public Depositories. The program strives to maintain \$1 billion in certificates of deposit.

Internal Liquidity Portfolio - The Treasury is required to fund warrants and electronic payment orders issued by the State. The Internal Liquidity Portfolio is maintained to provide these funds as well as to manage cash flow for the SPIA program. The Internal Liquidity Portfolio maintains a market value floor of \$2 billion. The Internal Liquidity Portfolio will maintain a target balance of at least the total of non-agency SPIA accounts plus a margin of safety. The margin of safety will be a range between the highest quarterly net disbursements and highest weekly disbursements over a five year period. The Investment Work Group will review and determine the targeted amount by analyzing financial markets, national economic conditions and state economic conditions as well as budget estimates.

Internal Bridge Portfolio - The Internal Bridge Portfolio is maintained to provide backup liquidity for unexpectedly large disbursements which cannot be covered by the Liquidity Portfolio or when the Liquidity Portfolio's market value approaches \$2 billion, while also providing higher returns than investments in the Internal Liquidity Portfolio. After the Internal Liquidity Portfolio and External Investment Manager Program are funded, the remaining funds will be divided among this portfolio and the Internal Intermediate Portfolio. The Investment Work Group will review and determine the targeted amount by analyzing financial markets, national economic conditions and state economic conditions as well as budget estimates.

Internal Intermediate Portfolio - The Internal Intermediate Portfolio is the second level of backup liquidity and should provide higher returns over time than the Liquidity and Bridge Portfolios. After the Internal Liquidity Portfolio and External Investment Manager Program are funded, the remaining funds will be divided among this portfolio and the Internal Bridge Portfolio. The Investment Work Group will review and determine the targeted amount by analyzing financial markets, national economic conditions and state economic conditions as well as budget estimates.

External Investment Manager Program - The External Investment Manager Program is designed to provide higher returns than the Internal Portfolios with some price volatility and limited liquidity requirement. The portfolio will maintain a market value range between 50 – 80% of trust fund balances over a five year period. The Investment Work Group will review and determine the targeted amount by analyzing financial markets, national economic conditions and state economic conditions as well as budget estimates.

Allocations will be reviewed on a semi-annual basis using June 30th and December 31st numbers, or more frequently as needed.

Article VIII

Risk Management

The primary approach to managing risk is to monitor principal quantitative and qualitative risk factors relative to benchmarks while continuing to pursue active returns. The below risk measures will be used to evaluate the risk in the Investment Pool in relation to the current/forecasted economic and market outlook. The following subsections identify the key risk areas with risk management parameters.

Active Risk

Active risk, commonly referred to as tracking error, is the risk associated with the differences in returns between the policy benchmark and the actual results of the portfolio. Active risk is measured as the standard deviation of the difference between the monthly returns of an active manager's actual portfolio and their respective benchmark(s). The active risk of the Investment Pool will be measured using the most recent trailing five years (60 months). If the upper bound of a targeted active risk range is pierced, further evaluation of the risk in the program and/or Investment Pool will be initiated. The budgeted amount of active risk for the entire Investment Pool will be up to 100 basis points with each portfolio range as follows:

Portfolios	Benchmark	Target Range
Internal Liquidity	Bank of America Merrill Lynch 0-3 month T-Bill	0 – 35 bps
Internal Bridge	Bank of America Merrill Lynch 1-3 year Government/Corporate, A or better	0 – 75 bps
Internal Intermediate	Bank of America Merrill Lynch 3-5 year Government/Corporate, A or better	0 – 150 bps
External Investment Manager Program	Barclays Capital U.S. Aggregate Bond Index	0 – 200 bps

Interest Rate Risk

Interest rate risk will be managed by limiting the effective duration of fixed income portfolios which is detailed in the Portfolios' Investment Policies.

Credit Risk

Issuer concentration is limited by the Portfolios' Investment Policies.

Sector Risk

Each portfolio is expected to be broadly diversified and may have deviations from the benchmark sector weightings. Sector exposures will be monitored by the Investment Work Group to identify the scale of under- and over- allocations and for performance attribution analysis. The active risk constraints in conjunction with the use of broad-based asset class benchmarks will have the effect of limiting sector concentration.

Manager Risk

The allocation to a single active External Manager in the External Investment Manager Program is limited to 20% of the External Manager's assets under management. External Managers must immediately notify the Financial Administrator for External Investments if this limitation is exceeded.

Derivatives Risk

Derivatives usage and limitations as well as risk management requirements are specified in the External Investment Manager Program Policy as well as Article XXIII.

Article IX

Investment Pool Rating

The Investment Pool must be rated by at least one nationally recognized rating service. The Investment Pool should be managed in a manner that maintains a rating of A+ or better using the S&P rating matrix.

Article X

Ethics

All Treasury investment employees, which include staff within Internal Investments, External Investments, and members of the Investment Work Group, will be controlled by this policy.

- Treasury investment employees must abide by Administrative Policy and Procedure Number 5-05, Department of Financial Service's Code of Ethics.
- The interests of the funds managed by the Treasury should be of paramount importance to each Treasury investment employee. Treasury investment employees must always exercise care and caution to place the interests of the Treasury before their own.
- No Treasury investment employee may influence the investment decision making process of the Treasury for personal gain or private advantage or in a manner detrimental to the interests of the Treasury.
- Treasury investment employees must avoid actions or activities that bring into question that person's independence of judgment with respect to the execution of professional responsibilities.
- All personal investment transactions must be accomplished in such a manner as to avoid even the mere appearance of impropriety or a conflict of interest on the part of Treasury investment employees. This includes, but is not limited to, refraining from undertaking personal investment transactions with the same individuals with whom business is conducted on behalf of the Treasury.

Article XI

Standard of Care

The Investment Pool's investments are subject to the "prudent person" standard of care. 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. In addition to considering the probable safety of capital and income of an investment, economic benefits an issuer can provide the State may also be considered in investment decisions.

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Article XII

Internal Controls

The Investment Work Group shall follow the requirements of Administrative Policy and Procedure Number 1-02. Internal controls will be established to maintain an adequate internal control structure designed to reasonably protect the Investment Pool's assets from loss, theft or misuse.

Article XIII

Continuing Education

All Treasury investment employees, which include staff within Internal Investments, External Investments and members of the Investment Work Group will complete at least 10 hours of continuing education annually. Continuing education will be in the form of an actual training event such as attending conferences in person, through webinars or conference calls. The education should be focused on economics, ethics, financial accounting and/or fixed income topics. The hours must be kept by the employee and submitted to the Compliance Officer no later than January 15th of each year.

Article XIV

Compliance

General investment compliance for the Investment Pool will be conducted by an independent Compliance Officer who reports directly to the Treasury Director. Securities Lending compliance will be conducted by the Internal Investment section. Compliance procedures will be maintained by the Compliance Officer for the Investment Pool and by the Internal Investment Section for Security Lending.

Article XV

Custodial Risk

The Treasury shall utilize a third party custodial agent for book entry transactions, all of which shall be held in an account in the name of the Florida Department of Financial Services. The custodial agent shall be an organization authorized to do work in the United States who has an account with the Federal Reserve. The custodial agent will also provide their most recent report on internal controls upon request.

If securities are not held by the custodial agent, the security must be held in an account in the name of the Florida Department of Financial Services.

Certificates of Deposit shall be held in the CFO's name and covered under FDIC insurance as well as Chapter 280, Florida Statutes, Public Deposit Program.

Article XVI

Downgraded Securities

Any security held in the Investment Pool that is downgraded below Investment Policy restrictions must adhere to the following:

- The Portfolio Manager must notify the Investment Work Group in writing (email, fax or letter) within two (2) days of the downgrade that triggers a compliance exception.
- Treasury will alert the Portfolio Manager of the requirement to liquidate the security within 90 days of the compliance exception, or to request inclusion of the security as defined in Article XVII.

A security whose credit rating is downgraded, but not to the extent that a compliance exception is generated, is not subject to this Article.

Article XVII

Section 17.57(2)(v), Florida Statutes Investments

Section 17.57(2)(v), Florida Statutes, allows 3% of funds under the control of the CFO to be invested in securities not specifically provided for within Section 17.57(2), Florida Statutes. The Treasury considers these securities as “Basket Clause” securities.

Prior approval must be obtained from the Investment Work Group to purchase any security not specifically permitted in Section 17.57(2), Florida Statutes. Any such security that is purchased without prior approval must be sold immediately.

Securities that are in compliance with the requirements of Section 17.57(2), Florida Statutes, at the time of purchase but fall out of compliance due to an event such as a rating downgrade will be placed in the Basket Clause upon the date the security is no longer in compliance. These securities can stay in the Basket Clause for up to 90 days with no approval requirements. If a Portfolio Manager believes that it is in the best interest of the Investment Pool to hold a Basket Clause security for greater than 90 days, that Portfolio Manager can present a recommendation to hold the security along with justification in writing to the Investment Work Group. The Investment Work Group will review each request and vote to approve or deny the request. If the Investment Work Group approves the request, the Portfolio Manager will be allowed to hold the security longer than the 90 day limit. Approved securities will be reviewed July and January of each year. As part of the review, the Portfolio Manager will submit updated recommendations which will go through the Investment Work Group review and approval process.

A report of outstanding Basket Clause securities will be presented to the Committee at each quarterly meeting.

If determined in the best interest of the Investment Pool by the Investment Work Group and/or the CFO, any security in the Basket Clause can be required to be sold immediately.

Article XVIII

Broker-Dealer Requirements

The Internal Investment section will transact all trades through an approved broker-dealer except for trading mutual funds, Israel Bonds and some commercial paper. The broker-dealer must be designated as a primary dealer by the Federal Reserve Bank of New York or be one of the top 20 underwriters of investment grade U.S. corporate bonds (by dollar volume). Broker-dealers must be incorporated in the United States and willing to do business with the Treasury. A review process will be completed annually and a list will be submitted to the Investment Work Group for approval.

Broker-dealers that have not complied with these requirements may still be kept on the approved broker-dealer list if past service is considered indispensable or if the broker-dealer can act as a repurchase agreement counterparty.

Article XIX

Securities Lending Agents

Treasury's policies and guidelines governing securities lending shall be implemented through the custodian or third party lending institution other than the custodian or a combination of the securities lending providers. The provider will be governed by a contract combined with the custody contract or a separate contract, distinct from a custody relationship, detailing the type of securities lending relationship and program.

The provider must exercise investment discretion within the overall objectives of: preserving principal; providing a liquidity level consistent with market conditions along with the lending and trading activities of the Funds' assets; and maintaining full compliance with stated objectives and statutory provisions. The provider shall exercise prudence and expertise in managing the cash collateral reinvestment function and comply with Article XXXII, the Investment Policy for Securities Lending.

Article XX

Placement Agents

As a general policy, the Treasury does not deal directly with Placement Agents in the process of selecting and hiring External Managers and broker-dealers. A Placement Agent is defined as any person or entity hired, engaged or retained by, or serving for the benefit of or acting on behalf of an External Manager, broker-dealer or on behalf of another Placement Agent, who acts or has acted for compensation, directly or indirectly, as a finder, solicitor, marketer, broker, lobbyist, or other intermediary to raise money or investment from, or to obtain access to the Florida Treasury, whether compensated, directly or indirectly, on a flat fee, contingent fee or any other basis.

Treasury identifies and reviews External Manager candidates independently and utilizes a standard fee schedule for External Managers with fees paid directly to the investment manager. Treasury only transacts with broker-dealers that meet the requirements described in Article XVIII. Treasury will not directly pay management fees of any kind to any Placement Agent.

All External Managers and broker-dealers must completely and accurately disclose all Placement Agent relationships, including the compensation paid to such Placement Agents.

All External Managers and broker-dealers must provide the following information to the Treasury prior to conducting business with the Treasury and annually thereafter:

- A statement whether the External Manager or broker-dealer, or any of its principals, employees, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any person or entity to act as a Placement Agent in connection with any investment by the Treasury, and if so, the name of the Placement Agent.
- A statement disclosing whether any Placement Agent has compensated or agreed to compensate, directly or indirectly, any third party (including a sub-contractor) to solicit an investment by the Treasury or who is paid based upon an investment commitment by the Treasury (Third Party Placement Agent).
- A description of any and all compensation of any kind provided or agreed to be provided to a Placement Agent, including the nature, timing and value thereof. Compensation to Placement Agents shall include compensation to Third Party Placement Agents who are retained in order to solicit an investment from the Treasury or who are paid based upon investment commitments secured by such third parties.
- A description of the services to be performed by the Placement Agent, including whether the nature of the services are either ministerial or influential, and a statement as to whether the Placement Agent is utilized by the External Manager with all prospective clients or only with a subset of the External Manager's prospective clients.
- A statement confirming that the Placement Agent and any Third Party Placement Agent, if applicable, is registered with the SEC or the Financial Industry Regulatory Association or a similar regulatory body (which must be disclosed) in a country other than the United States.

Article XXI

External Manager Selection

Treasury will prudently select external fixed income investment managers (“Managers”) based on their respective expertise relative to the investment mandate the Treasury seeks to fulfill or the investment service the Treasury seeks to receive.

New Managers are added for a variety of reasons including, but not limited to:

- Need for increased investment capacity
- Enhanced diversification of Managers
- Addition of new strategies or styles
- Termination of existing external Managers

Managers interested in providing their services to the Treasury are required to complete the Investment Manager Questionnaire (“Questionnaire”) located on the Treasury’s web site at <http://www.fltreasury.org>.

Managers must satisfy the following criteria to be considered in the selection process:

- Must be a bank, insurance company, or investment adviser as defined by the Investment Advisers Act of 1940.
- Must be registered and in good standing with the Securities and Exchange Commission.
- Must have a minimum of five years with the desired investment style, demonstrate continuity of key personnel, have institutional fund experience, and accept Treasury’s standard fee schedule or a lower fee schedule.
- Must have a clearly defined investment philosophy and decision-making process.
- Must demonstrate generally favorable consistent historical performance in relation to the External Investment Manager Program benchmark, calculated per the CFA Institute Global Investment Performance Standards (GIPS).
- Must have Assets Under Management greater than 5 times the proposed allocation.

Selection Based on Specific Need

The Investment Work Group will consider Managers that are included in databases maintained by its Custodial Bank, Investment Consultant and/or other industry recognized databases that have an expertise in the area of need. The Investment Work Group will perform the steps necessary to ensure that subjectivity and bias are minimized in the Manager selection process and that appropriate due diligence is conducted on selected Managers. Each selected Manager will be presented to the Committee for comment and to the CFO for approval. Once approved, the selected Manager will enter into a Treasury’s standard Investment Manager Agreement.

Annual Review

At least annually, the Investment Work Group will review the completed Questionnaires and any other available data on potential Managers to determine if adding new Managers to the External Investment Manager Program would be appropriate.

Article XXII

External Investment Manager Program Review

Treasury will utilize quantitative and qualitative measures in the decision making process.

Manager Reviews

Managers will be evaluated semi-annually as a means of monitoring their contributions toward achieving the External Investment Manager Program's objectives. Manager performance reviews are normally conducted during January and July, covering the previous 6-month period. The reviews may be held via conference call, at Treasury's office, or at the Manager's location.

Each manager review consists of many factors for consideration, including but not limited to the following:

- An overview of the organization, including any material changes or updates to its structure, ownership, investment process or philosophy, assets under management and/or the stability of the firm's business.
- Any loss of key personnel and/or clients.
- A review of the portfolio, its risk metrics and performance over the prior 6 and 12 month periods and the performance relative to the program composite and peers.
- Operational factors including compliance and controls.
- A market review including the firm's short-term economic forecast.

Investment Work Group Evaluation

Manager evaluations by the Investment Work Group will include, but not be limited to, comparison to:

- The total return of the Barclays Capital U.S. Aggregate Bond Index for the prior 3 and 5 year periods.
- The net return of the External Investment Manager Program Composite for the prior 3 and 5 year periods.
- The risk measures of the External Investment Manager Program Composite for the prior 3 and 5 year periods as provided in the Investment Policy for External Investment Manager Program and Article VIII.
- A broad universe of fixed income managers.
- Any indices or metrics that the Investment Work Group deems appropriate from time to time.

Further consideration will be given to the following items that may require action by the Investment Work Group:

- Treasury’s liquidity needs.
- Any changes in the Manager’s investment process or strategy and developments in capital markets that impact strategy.
- A change at the Manager resulting in deterioration in the efficacy of the investment process and any ongoing performance problems.
- Any change or modification in the Treasury’s investment philosophy or strategy such that the Manager no longer fits within the program and its objectives.
- Any other conditions, developments or contingencies that require special attention.
- A change in the Manager’s capital structure.

Underperforming Firms

In evaluating the Managers, utilizing the criteria listed above, the Investment Work Group may deem one or more firms as underperforming. Underperforming Managers face one of three possible consequences:

- Imposition of a probationary or “on watch” period during which the manager will be required to exceed the index and to compare favorably versus the other firms in the program
- A reduction in assets, either a percentage of assets or a specific dollar amount
- Termination from the program

Outperforming Managers

Those firms that exceed the Barclays Capital U.S. Aggregate Bond Index and the External Investment Manager Program’s composite on a net-of-fees basis for both 3 and 5 year periods and whose risk measures compare favorably to their program peers and the index may receive additional assets, subject to funds availability.

Recommendations

The Investment Work Group determines the best course of action for each Manager in the Program. A formal recommendation will be presented to the Committee for comment.

Article XXIII **Derivatives Policy**

The Investment Pool is allowed to invest in the following types of derivatives: Options, Interest Rate Futures and Mortgage TBAs (also known as Dollar Rolls). If used appropriately, derivative contracts can be an important component of a portfolio by reducing risk, providing a cheaper, more efficient manner in which to obtain market exposure or to expand the opportunity set in which qualified managers seek to add value.

Derivatives are further restricted in the External Investment Manager Program’s Investment Policy.

Article XXIV

Security Pricing

Investment securities pricing is provided by the custodian through the Custodian Contract.

Article XXV

Special Purpose Investment Account

State agencies and other entities wishing to invest in SPIA, must enter into an agreement with the Department titled the “Special Purpose Investment Account (SPIA) Agreement”. Treasury may limit the amount of funds that may be invested in SPIA, and may also limit the number of SPIA participants. Generally, Treasury will limit non-agency SPIA participation to 30% of the overall Investment Pool balance. Exceptions to this limitation may be permitted and will be considered on a case by case basis by the Investment Work Group. Procedures for SPIA are maintained by the Division of Treasury, Bureau of Funds Management.

Article XXVI

Prohibited Securities and the Protecting Florida’s Investments Act

The Protecting Florida’s Investments Act (PFIA) requires the Florida State Board of Administration (SBA) to assemble and publish a list of “Scrutinized Companies” that have prohibited business operations in Sudan or Iran. The SBA and its investment managers are prohibited from acquiring those companies’ securities. While not required by PFIA, Treasury will also refrain from acquiring securities from the companies on the SBA’s list of “Scrutinized Companies.”

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Section 4
INVESTMENT POLICIES

Article XXVII

Investment Policy for Internal Liquidity Portfolio

OBJECTIVES

A sufficient level of liquidity will be maintained in short-term investment instruments to meet the highest expected disbursement needs plus an extra amount to meet unusual and unexpected disbursements.

PERMITTED SECURITIES

Investment Vehicles and Restrictions

1. Repurchase Agreements and Reverse Repurchase Agreements
 - Counterparties must maintain an S&P short-term rating of A2 or better for overnight transactions and A1 or better for transactions longer than overnight but less than a year.
 - Counterparties must be a broker approved by the Investment Work Group.
 - Collateral will be marked-to-market daily and will allow shortages up to \$5,000 for any collateral above \$1,000,000 market value.
 - Acceptable collateral as follows:

<i>Maturities</i>	<i>Treasury, Non-Subordinated Agency Obligations and Securities backed by the full faith and credit of the U.S. Government</i>	<i>Mortgage-Backed Agency Obligations</i>	<i>Other Permitted Securities under Section 17.57, Florida Statutes</i>
7 days or less	101% (market value including accrued interest)	None	None
8 to 30 days	102% (market value including accrued interest)	105% (market value including accrued interest)	105% (market value including accrued interest)
Over 30 days	105% (market value including accrued interest)	108% (market value including accrued interest)	108% (market value including accrued interest)

2. Commercial Paper

- Acceptable Commercial Paper as follows:

<i>Par amount per issuer (maximum)</i>	<i>Ratings – must be rated by at least 2</i>	<i>Maturity</i>
\$30 million	<ul style="list-style-type: none"> • A1 from S&P • P1 from Moody’s • F1 from Fitch 	15 days or less
\$50 million	<ul style="list-style-type: none"> • A1+ from S&P • P1 from Moody’s • F1+ from Fitch 	45 days or less
\$100 million	Must be on a list approved by the Investment Work Group. The total \$100 million investment cannot have a maturity past 45 days.	

- Issued by any entity domiciled in the United States.
- Issuer restriction will not be combined with Internal Bridge or Internal Intermediate Portfolios.
- A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer’s rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company’s capital structure (i.e., are similar in terms of seniority).
- Securities that are collateralized with any portion of Sub-Prime Mortgages or Alt-A Mortgages are not permitted.
- Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations or Asset-Backed Commercial Paper Obligations are not permitted.

3. No-Load Commingled or Money Market Mutual Funds Regulated by the SEC

- \$200 million par amount per fund.

4. U.S. Treasury Obligations

- No limits.

5. U.S. Government Agencies

- U.S. Government Agencies include Federal Farm Credit Banks, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Agricultural Mortgage Corporation, Student Loan Marketing Association and any Agency obligation fully backed and guaranteed by the United States.
- Subordinated U.S. Government Agencies are not allowed.
- No limits.

6. Corporate Obligations

- Rated by at least two nationally recognized rating services (S&P, Moody’s, and Fitch) in any one of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).

- A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - No more than \$25 million par amount per issuer.
 - Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles and Special Purpose Entity Obligations are not permitted.
7. Bankers Acceptances
- Issued by a commercial bank with deposits of not less than \$400 million domiciled in the United States.
 - Senior debt must be rated in one of the two highest ratings by a nationally recognized rating service.
 - Bank must be a member of the Federal Reserve System.
8. Mortgage-Backed Securities, Asset-Backed Securities, Municipal Securities, and Foreign Securities
- No more than \$10 million par amount per issuer except for the Florida Department of Environmental Protection Everglades Restoration Revenue bonds and State of Israel.
 - Mortgage-backed and Asset-backed securities must be rated AAA by two of the nationally recognized rating services.
 - Municipal and Foreign securities must be rated by at least two nationally recognized rating services in any one of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater.)
 - A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - Foreign securities must be registered with the SEC and be U.S. dollar dominated.
 - Mortgage-Backed and Asset-Backed securities of any one tranche shall not comprise more than 2% of the account's market value.
 - Securities that are collateralized with any portion of Sub-Prime Mortgages or Alt-A Mortgages obligations are not permitted.
 - Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles or Special Purpose Entity Obligations are not permitted.

OTHER RESTRICTIONS

Since the Florida Division of Treasury is not considered a Qualified Institutional Buyer, securities issued under SEC Rule 144a shall not be purchased. All securities must be registered with the SEC except for U.S. Treasury Securities, U.S. Agency Securities, Municipal Bonds, Commercial Paper, Bankers Acceptance obligations and Certificates of Deposit.

RATING LIMITS

Portfolio should hold no more than 5% of the portfolio's market value in securities rated within the BBB range by S&P.

MAXIMUM MATURITIES

There is a two-year maximum maturity per individual security except for bonds issued by Florida Department of Environmental Protection Everglades Restoration Revenue, State of Israel or investments benchmarked to a specific outflow.

EVALUATION

The investment performance of the Internal Liquidity Portfolio will be evaluated annually by comparison with the Merrill Lynch 0-3 months U.S. Treasury Bills on a rolling 3 and 5 year total return basis.

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Article XXVIII

Investment Policy for Internal Bridge Portfolio

OBJECTIVES:

The Internal Bridge Portfolio will be the first buffer between the Internal Liquidity Portfolio and the External Investment Manager Program. Funds invested in the Internal Bridge Portfolio will be the first to be converted to cash in the event that the Treasury's Internal Liquidity Portfolio drops below levels deemed necessary to meet the State's disbursement needs. This portfolio's objective is to maximize total return while preserving principal.

PERMITTED SECURITIES

Investment Vehicles and Restrictions

1. Direct United States Treasury Obligations
 - No limits.
2. U.S. Government Agencies
 - U.S. Government Agencies include Federal Farm Credit Banks, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Agricultural Mortgage Corporation, and any Agency obligation fully backed and guaranteed by the United States.
 - Subordinated U.S. Government Agencies are not allowed.
 - No limits.
3. Corporate Obligations (U.S. domiciled)
 - Rated by at least two nationally recognized rating services (S&P, Moody's, and Fitch) in any one of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
 - A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - Portfolio should hold not more than 2% of the portfolio's market value in any one corporate issuer. The corporate issuer restriction will not include issuers of Commercial Paper.
 - Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles and Special Purpose Entity Obligations are not permitted.
4. Commercial Paper
 - No more than \$25 million par amount per issuer.
 - Issues must be rated in any 2 of the following 3 categories for maturities 30 day or less:
 - A1 or A1+ from S&P

- P1 from Moody's
 - F1 or F1+ from Fitch
 - Issued by any entity domiciled in the United States.
 - Issuer restriction will not be combined with Internal Liquidity and Internal Intermediate Portfolios.
 - A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - Securities that are collateralized with any portion of Sub-Prime Mortgages or Alt-A Mortgages are not permitted.
 - Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations or Asset-Backed Commercial Paper Obligations are not permitted.
5. No-Load Commingled or Money Market Mutual Funds regulated by the SEC
- No limits.
6. Repurchase Agreements and Reverse Repurchase Agreements
- Counterparties must maintain an S&P short-term rating of A2 or better for overnight transactions and A1 or better for transactions longer than overnight but less than a year.
 - Counterparties must be a Broker approved by the Investment Work Group.
 - Collateral will be marked to market daily and will allow shortages up to \$5,000 for any collateral above \$1,000,000 market value.
 - Acceptable collateral as follows:

<i>Maturities</i>	<i>Treasury, Non-Subordinated Agency Obligations and Securities backed by the full faith and credit of the U.S. Government</i>	<i>Mortgage-Backed Agency Obligations</i>	<i>Other Permitted Securities under Sections 17.57, Florida Statutes</i>
7 days or less	101% (market value including accrued interest)	None	None
8 to 30 days	102% (market value including accrued interest)	105% (market value including accrued interest)	105% (market value including accrued interest)
Over 30 days	105% (market value including accrued interest)	108% (market value including accrued interest)	108% (market value including accrued interest)

7. Mortgage-Backed Securities, Asset-Backed Securities, Municipal Securities, and Foreign Securities
- Municipal and Foreign securities must be rated by at least two nationally recognized rating services in any one of the four highest classifications (BBB-/Baa3/BBB- or greater) or any

- one of the two highest classifications if rated only by one nationally recognized rating service (AA-/Aa3/AA- or greater).
- Portfolio should not hold more than 2% of the portfolio's market value in any one Municipal Securities or Foreign Securities issuer. Commercial Paper holdings will not be incorporated in this restriction.
 - Mortgage-Backed and Asset-Backed securities must be rated AAA by two of the nationally recognized rating services.
 - Mortgage-Backed and Asset-Backed securities of any one tranche shall not comprise more than 2% of the account's market value.
 - A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - Foreign securities must be registered with the SEC and be U.S. dollar denominated.
 - Securities that are collateralized with any portion of Sub-Prime Mortgages or Alt-A Mortgages are not permitted.
 - Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles or Special Purpose Entity Obligations are not permitted.

SECTOR ALLOCATION

Allocation is determined by the sector's market value divided by the total market value of the portfolio.

<u>Sectors</u>	<i>Target Ranges</i>	
	<u>Minimum</u>	<u>Maximum</u>
Cash and cash equivalents	0%	100%
U.S. Treasury Obligations	0%	100%
U.S. Government Agency Obligations	0%	60%
Corporate Obligations	0%	30%
Other Eligible Investments	0%	10%

OTHER RESTRICTIONS

Since the Florida Division of Treasury is not considered a Qualified Institutional Buyer, securities issued under SEC Rule 144a shall not be purchased. All securities must be registered with the SEC except for U.S. Treasury Securities, U.S. Agency Securities, Municipal Bonds, Commercial Paper, Bankers Acceptance obligations and Certificates of Deposit.

RATING LIMITS

Portfolio should hold no more than 5% of the portfolio's market value in securities rated within the BBB range by S&P.

MAXIMUM DURATION

The portfolio's effective duration will not exceed three (3) years.

EVALUATION

The investment performance of the Internal Bridge Portfolio will be evaluated by comparison with the Merrill Lynch 1-3 Year Government/Corporate with A or better rating on a rolling 3 and 5 year total return basis.

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Article XXIX

Investment Policy for Internal Intermediate Portfolio

OBJECTIVE:

The Internal Intermediate Portfolio is structured to meet the primary objective of enhancing long-term principal value by maximizing the total rate of return earned on investments in permissible securities, given the parameters and risk tolerance provided below.

PERMITTED SECURITIES

Investment Vehicles and Restrictions

1. Direct United States Treasury Obligations
 - No limits.
2. U.S. Government Agencies
 - U.S. Government Agencies include Federal Farm Credit Banks, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Agricultural Mortgage Corporation and any Agency obligation fully backed and guaranteed by the United States.
 - Subordinated U.S. Government Agencies are not allowed.
 - No limits.
3. Corporate Obligations (long-term maturities)
 - Rated by at least two nationally recognized rating services (S&P, Moody's, or Fitch) in any one of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
 - A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - Portfolio should hold no more than 2% of the portfolio's market value in any one corporate issuer. Commercial Paper holdings will not be incorporated in this restriction.
 - Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles or Special Purpose Entity Obligations are not permitted.
4. Foreign Obligations (long-term maturities)
 - Dollar denominated and registered with the SEC.
 - Rated by at least two nationally recognized rating services in any one of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).

- A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - Portfolio should hold no more than 2% of the portfolio's market value in any one issuer in long-term maturities. Commercial Paper holdings will not be incorporated in this restriction.
5. Municipal Obligations
- Rated by at least two nationally recognized rating services in any one of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
 - Portfolio should hold no more than 2% of the portfolio's market value in any one municipal issuer.
6. Commercial Paper
- No more than \$20 million par amount per issuer.
 - Issues must be rated in any 2 of the following 3 categories for maturities 30 days or less :
 - A1 or A1+ from S&P
 - P1 from Moody's
 - F1 or F1+ from Fitch
 - Issued by any entity domiciled in the United States.
 - Issuer restriction will not be combined with Internal Liquidity or Internal Bridge Portfolios.
 - A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - Securities that are collateralized with any portion of Sub-Prime Mortgages or Alt-A Mortgages are not permitted.
 - Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations or Asset-Backed Commercial Paper Obligations are not permitted.
7. Repurchase Agreements and Reverse Repurchase Agreements
- Counterparties must maintain an S&P short-term rating of A2 or better for overnight transactions and A1 or better for transactions longer than overnight but less than a year.
 - Counterparties must be a Broker approved by the Investment Work Group.
 - Collateral will be marked to market daily and will allow shortages up to \$5,000 for any collateral above \$1,000,000 market value.

- Acceptable collateral as follows:

<i>Maturities</i>	<i>Treasury, Non-Subordinated Agency Obligations and Securities backed by the full faith and credit of the U.S. Government</i>	<i>Mortgage Backed Agency Obligations</i>	<i>Other Permitted Securities under Section 17.57, Florida Statutes</i>
7 days or less	101% (market value including accrued interest)	None	None
8 to 30 days	102% (market value including accrued interest)	105% (market value including accrued interest)	105% (market value including accrued interest)
Over 30 days	105% (market value including accrued interest)	108% (market value including accrued interest)	108% (market value including accrued interest)

8. No-Load Commingled or Money Market Mutual Funds regulated by the SEC
 - No limits
9. Mortgage-Backed Securities and Asset-Backed Securities
 - Mortgage-Backed and Asset-Backed securities of any one tranche shall not comprise more than 2% of the account's market value.
 - Mortgage-Backed and Asset-Backed securities must be rated AAA by two of the nationally recognized rating services.
 - A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - Securities that are collateralized with any portion of Sub-Prime Mortgages or Alt-A Mortgages are not permitted.
 - Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations, Structured Investment Vehicles or Special Purpose Entity Obligations are not permitted.

SECTOR ALLOCATION

Allocation is determined by the sector's market value divided by the total market value of the portfolio.

<i><u>Sectors</u></i>	<i>Target Ranges</i>	
	<i><u>Minimum</u></i>	<i><u>Maximum</u></i>
Cash and Cash Equivalents	0%	100%
U.S. Treasury Obligation	0%	100%
U.S. Government Agency Obligations	0%	60%
Corporate Obligations	0%	50%
Asset-Backed Obligations	0%	10%
Municipal Obligations	0%	25%
Other Eligible Investments	0%	20%

OTHER RESTRICTIONS

Since the Florida Division of Treasury is not considered a Qualified Institutional Buyer, securities issued under SEC Rule 144a shall not be purchased. All securities must be registered with the SEC except for U.S. Treasury Securities, U.S. Agency Securities, Municipal Bonds, Commercial Paper, Bankers Acceptance obligations and Certificates of Deposit.

RATING LIMITS

Portfolio should hold no more than 5% of the portfolio's market value in securities rated within the BBB range by S&P.

MAXIMUM DURATION

The portfolio's effective duration will not exceed five (5) years.

EVALUATION

The investment performance of the Internal Intermediate Portfolio will be evaluated by comparison with the Merrill Lynch 3-5 Year Government/Corporate with A or better rating on a rolling 3 and 5 year total return basis.

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Article XXX

Investment Policy for External Investment Manager Program

OBJECTIVE

The Externally Managed Investment Program will provide long-term value while limiting risk appropriately and providing a backup source of liquidity. On occasion, managers may be instructed to minimize realized losses and/or raise cash to meet Treasury's liquidity needs.

PERMITTED SECURITIES

Investment Vehicles and Restrictions

1. U.S. Government and Agency Bonds
 - No limits.

2. Municipal Securities
 - Rated by at least two nationally recognized rating services (S&P, Moody's and Fitch) in any of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
 - A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - The securities of any one municipal bond issuer shall not comprise more than 2.5% of the account's market value.

3. Corporate Obligations (US Domiciled)
 - Long-term obligations must be rated by at least two nationally recognized rating services (S&P, Moody's and Fitch) in any of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
 - Commercial paper denominated in U.S. dollars and other short-term obligations shall be rated at least A1, P1 or F1 by at least two nationally recognized rating services (S&P, Moody's and Fitch).
 - A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - The securities of any one corporate entity shall not comprise more than 2.5% of the account's market value.
 - Equipment Trust Certificates and Enhanced Equipment Trust Certificates are permitted investments.

- Collateralized Debt Obligations, Collateralized Bond Obligations and Collateralized Loan Obligations are not permitted.
 - Convertible securities are not permitted.
 - Preferred Stock and Trust Preferred Securities are not permitted.
 - Structured Investment Vehicles and Special Purpose Entities are not permitted.
 - Securities with maturities which are extendable by the issuer are not permitted.
 - Payment-In-Kind (“PIK”) securities are not permitted.
4. Foreign Obligations (Non-US Domiciled)
- US Dollar denominated and registered with the SEC.
 - Must be rated by at least two nationally recognized rating services (S&P, Moody’s and Fitch) in any of the four highest classifications (BBB-/Baa3/BBB- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
 - Commercial paper issued by foreign domiciled corporations is not permitted.
 - A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer’s rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company’s capital structure (i.e., are similar in terms of seniority).
 - The securities of any one corporate issuer shall not comprise more than 2.5% of the account’s market value.
5. Asset-Backed Securities
- Must be rated in the highest rating classification (AAA/Aaa) by at least two nationally recognized rating services.
 - Collateralized Debt Obligations, Collateralized Bond Obligations and Collateralized Loan Obligations are not permitted.
 - ABS containing any Sub-prime or Alt-A components are not permitted.
 - The securities of any one tranche shall not comprise more than 2.5% of the account’s market value.
6. Mortgage-Backed Securities
- Mortgage-Backed Securities shall include, but not be limited to, adjustable rate mortgage securities, fixed rate mortgage securities, and mortgage products such as Collateralized Mortgage Obligations (CMOs), Real Estate Mortgage Investment Conduit (REMICs) and stripped mortgage securities.
 - Must be rated in the highest rating classification (AAA/Aaa) by at least one nationally recognized rating service.
 - Sub-prime Mortgage-Backed Securities are not permitted.
 - Alt-A Mortgage-Backed Securities are not permitted.
 - The securities of any one tranche shall not comprise more than 2.5% of the account’s market value.
 - No more than 2% of an account’s market value shall be invested in interest-only strips (IOs).
7. Mortgage-Backed To-Be-Announced (TBA) Securities

- Mortgage TBAs / TBA Dollar Rolls are limited to 20% of the account's market value. Leverage, defined as increasing investment risk by creating liabilities that cannot be funded by cash or cash equivalent assets held in the account, may not exceed 10% of the account's market value.
- Managers must monitor and limit their TBA counterparty exposure. No more than 5% of the account's market value can be in TBAs with any one counterparty on a net basis.

8. Options

- Managers may purchase put and call options on any security that is permitted in the portfolio except for interest rate futures.
- Swaps and other derivative contracts are not permitted.
- Options may be written if they are fully covered. Call options are considered covered if the manager owns the underlying security. Put options are considered covered if cash equivalent assets in an amount equal to the exercise cost are maintained in a segregated account.
- The aggregate value of each Manager's option positions shall not exceed 5% of the account's market value. The aggregate value of securities underlying written options shall not exceed 35% of the account's market value.

9. Interest Rate Futures

- The only type of futures permitted is interest rate futures.
- The instruments for such purpose must be traded on a securities exchange or board of trade regulated by the Securities and Exchange Commission or the Commodity Futures Trading Commission.
- Managers may take long or short positions in interest rate futures provided the contribution to duration of all interest rate futures positions (on a net basis) shall not exceed one (1) year.

OTHER RESTRICTIONS

Since the Florida Division of Treasury is not considered a Qualified Institutional Buyer, securities issued under SEC Rule 144a shall not be purchased. All securities must be registered with the SEC except for U.S. Treasury Securities, U.S. Agency Securities, Municipal Bonds, Commercial Paper, Bankers Acceptance obligations and Certificates of Deposit.

RATING LIMITS

Each External Manager account should hold no more than 10% of the market value in securities rated within the BBB range by S&P.

MAXIMUM DURATION

The account's effective duration must be less than six (6) years.

REQUESTS FOR CONSENT, NO OPT-OUT PROVISIONS

Managers are not permitted, under any circumstances, to include an Opt-Out clause, wherein consent is deemed to be granted if no response is provided within a designated time frame, when requesting Treasury's consent to any change. Managers requesting Treasury's consent to any modification or

change to the Investment Manager Agreement (i.e. Consent to Assignment), operational activities or any related matter (i.e. cross trading, etc.) must obtain written approval before consent is deemed granted.

MONTHLY COMPLIANCE CERTIFICATION

Managers will be required to provide to Treasury a signed monthly certification that all assets held in their account are either in compliance with applicable Florida Statutes and this Investment Policy, or have been approved for Basket Clause status, or are in the process of review for Basket Clause consideration with the Investment Work Group.

EVALUATION

The investment performance of the External Investment Manager Program will be evaluated by comparison with the Barclays Capital U.S. Aggregate Bond Index on a rolling 3 and 5 year total return basis and against the other managers in the program.

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Article XXXI

Investment Policy for Securities Lending

OBJECTIVES

The Securities Lending program is structured to provide additional income with the objective of preserving principal given the parameters and risk tolerance provided below. A sufficient level of liquidity will be maintained to facilitate the security movements of all assets in the participating portfolios.

PERMITTED SECURITIES

Investment Vehicles and Restrictions

1. Liquidity requirement
 - No less than 20% of the Investment Pool will be invested in overnight securities.
2. Repurchase Agreements and Reverse Repurchase Agreements
 - Repurchase agreements may not exceed a 60 days final maturity at the time of purchase.
 - Counterparties must maintain an S&P short-term rating of A2 or better for overnight transactions and A1 or better for transactions longer than overnight but less than a year.
 - No more than 20% of the portfolio's market value, at the time of purchase, may be invested in any one counterparty (subsidiaries and holding company of the same organization will count as one counterparty).
 - Acceptable collateral is as follows:

<i>Maturities</i>	<i>Treasury, Non- Subordinated Agency Obligations and Securities backed by the full faith and credit of the U.S. Government</i>
7 days or less	102% (market value including accrued interest)
8 to 30 days	103% (market value including accrued interest)
Over 30 days	105% (market value including accrued interest)

3. Commercial Paper
 - Issuers must be rated in any 2 of the following 3 categories:
 - A1 or A1+ from S&P
 - P1 from Moody's
 - F1 or F1+ from Fitch
 - Issued by any entity domiciled in the United States.

- A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - Securities that are collateralized with any portion of Sub-Prime Mortgages or Alt-A Mortgages are not permitted.
 - Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations or Asset-Backed Commercial Paper Obligations are not permitted.
 - Structured Investment Vehicles and Special Purpose Entities are not permitted.
 - Commercial Paper will be combined with all other holdings of the same issuer within the portfolio in order to calculate concentration levels. The portfolio can hold up to 1.5% of market value in any one issuer at the time of purchase.
4. Money Market Mutual Funds Regulated by the SEC Rule 2a-7
- Fund can only hold U.S. Treasury Obligations, U.S. Government Agency Obligations and repurchase agreements which are collateralized with U.S. Treasury and U.S. Government Agency obligations. There is a \$200 million per fund limit.
 - Must be rated AAA by at least one nationally recognized rating service (S&P, Moody's, and Fitch).
5. U.S. Treasury Obligations
- Maturity cannot exceed two (2) years at the time of purchase.
 - No other limits.
6. U.S. Government Agencies
- U.S. Government Agencies include Federal Farm Credit Banks, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Agricultural Mortgage Corporation, and any Agency obligation fully backed and guaranteed by the United States.
 - Subordinated U.S. Government Agency debt is not permitted.
 - Maturity cannot exceed two (2) years at the time of purchase.
 - No other limits.
7. Corporate Obligations (US domiciled)
- Must be rated by at least two nationally recognized rating services (S&P, Moody's, and Fitch) in any one of the three highest classifications (A-/A3/A- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater).
 - A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - Corporate debt will be combined with all other holdings of the same issuer within the portfolio in order to calculate concentration levels. The portfolio can hold up to 1.5% of market value in any one issuer at the time of purchase.
 - The final maturity cannot exceed two (2) years at the time of purchase.
 - Securities with maturities which are extendable are not permitted.

- Collateralized Debt Obligations, Collateralized Bond Obligations and Collateralized Loan Obligations are not permitted.
 - Structured Investment Vehicles and Special Purpose Entities are not permitted.
 - Subordinated debt is not permitted.
8. Foreign Securities (domiciled outside the United States)
- Must be rated by a least two nationally recognized rating services in any one of the three highest classifications (A-/A3/A- or greater) or any one of the two highest classifications if rated by only one nationally recognized rating service (AA-/Aa3/AA- or greater.)
 - A security without its own rating or with an estimated rating will be considered to be rated pari passu with that issuer's rated bonds, provided that the un-rated security and the rated securities occupy similar positions in the company's capital structure (i.e., are similar in terms of seniority).
 - The security must be registered with the SEC and be U.S. dollar dominated.
 - The final maturity cannot exceed two (2) years at the time of purchase.
 - Securities with maturities which are extendable are not permitted.
 - Securities that are collateralized with any portion of Sub-Prime Mortgages or Alt-A Mortgages are not permitted.
 - Collateralized Debt Obligations, Collateralized Bond Obligations, and Collateralized Loan Obligations are not permitted.
 - Structured Investment Vehicles and Special Purpose Entities are not permitted.
 - Foreign debt will be combined with all other holdings of the same issuer within the portfolio in order to calculate concentration levels. The portfolio can hold up to 1.5% of market value in any one issuer at the time of purchase.
 - Subordinated debt is not permitted.
9. Certificates of Deposit
- Yankee Certificates of Deposit, meaning negotiable interest-bearing deposits of U.S. branches of foreign banks.
 - Issuer or the Parent of issuer must be registered with the SEC.
 - Issuer or the Parent of issuer must be rated by at least two nationally recognized rating services in any one of the two highest classifications (AA-/AA3/AA- or greater).
 - Euro-dollar Certificates of Deposit, meaning negotiable interest-bearing U.S. dollar denominated deposits in foreign branches of U.S. banks and in foreign banks located offshore.
 - Issuer or the Parent of issuer must be registered with the SEC
 - Issuer or the Parent of issuer must be rated by at least two nationally recognized rating services in any one of the two highest classifications (AA-/AA3/AA- or greater).
 - US Bank Certificates of Deposit, meaning negotiable interest-bearing U.S. dollar denominated deposits of U.S. banks.
 - Issuer must be rated by at least two nationally recognized rating services in any one of the two highest classifications (AA-/AA3/AA- or greater).
 - No more than 1.5% of the portfolio's total market value may be invested in any one issuer of these instruments at the time of purchase.
 - The final maturity cannot exceed two (2) years at the time of purchase.
 - Time Deposits are not permitted.
10. Mortgage- Backed Securities and Asset-Backed Securities are not permitted.

OTHER RESTRICTIONS

Since the Florida Division of Treasury is not considered a Qualified Institutional Buyer, securities issued under SEC Rule 144a shall not be purchased. All securities must be registered with the SEC except for U.S. Treasury Securities, U.S. Agency Securities, Municipal Bonds, Commercial Paper, Bankers Acceptance obligations and Certificates of Deposit.

SECTOR LIMITS

At the time of purchase, portfolio should hold no more than 50% of the portfolio's market value in securities within the financial sector as defined by Global Industry Classification (GICS).

PORTFOLIO WEIGHTED AVERAGE DAYS TO MATURITY

The portfolio's maximum weighted average days to maturity may not exceed 120 days. This will be measured to the final maturity. If a security has an embedded put option, the days to maturity will be calculated to next put date. The reset date of a floating rate coupon instrument will not be considered as the final maturity unless there is a put option on the same date.

CREDIT RATING FOR LONG-TERM OBLIGATIONS

The credit rating of long-term obligations is determined at the time of issuance. Obligations issued with maturities greater than one year will be considered long-term for the life of the obligation and its corresponding long-term credit rating will be the criterion used when determining credit quality.

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Article XXXII

Investment Policy for Short-Term Investment Account

OBJECTIVES

The investment objectives of this policy, in order of priority, are as follows:

- Maintain a degree of liquidity appropriate to accommodate the requirements of the actively traded external portfolios.
- Preserve principal.
- Deliver competitive returns subject to prevailing market conditions.

PERMITTED SECURITIES

1. Direct United States Treasury Obligations
 - No Limits

2. U.S. Government Agencies
 - U.S. Government Agencies include Federal Farm Credit Banks, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Agricultural Mortgage Corporation and any Agency obligation fully backed and guaranteed by the United States.
 - Subordinated U.S. Government Agencies are not allowed.
 - No limits.

3. Repurchase agreements
 - Collateralized at 101% (market value plus accrued interest) at the time of purchase with only U.S. Treasury or non-subordinated U.S. Government Agency obligations.
 - Counterparties must maintain an S&P short-term rating of A2 or better for overnight transactions and A1 or better for transactions longer than overnight but less than a year.

 - Repurchase agreements may not exceed a 7-day final maturity.
 - No more than 25% of the portfolio's total assets may be invested in repurchase agreements with any one counterparty.
 - Reverse Repurchase Agreements are prohibited.

4. Commercial Paper
 - Paper issued under Regulation type 3(a)3 can be purchased.
 - Issuers must be rated in any 2 of the following 3 categories:
 - A1 or A1+ from S&P
 - P1 from Moody's
 - F1 or F1+ from Fitch
 - Issued by any entity domiciled in the United States.

- Portfolio should hold no more than 2.5% of the portfolio's market value in any one issuer at the time of purchase.
- Commercial Paper is limited to a maximum of 25% of the portfolio's market value.
- Securities that are collateralized with any portion of Sub-Prime Mortgages or Alt-A Mortgages are not permitted.
- Collateralized Debt Obligations, Collateralized Bond Obligations, Collateralized Loan Obligations or Asset-Backed Commercial Paper Obligations are not permitted.
- Structured Investment Vehicles and Special Purpose Entities are not permitted.

OTHER RESTRICTIONS

Since the Florida Division of Treasury is not considered a Qualified Institutional Buyer, securities issued under SEC Rule 144a shall not be purchased. All securities must be registered with the SEC except for U.S. Treasury Securities, U.S. Agency Securities, Municipal Bonds, Commercial Paper, and Certificates of Deposit.

MAXIMUM MATURITIES

Securities must have a final maturity that does not exceed 24 months at the time of purchase with the portfolio's maximum weighted average days to maturity may not exceed 90 days.

EVALUATION

The investment performance of the Short-Term Investment Account will be evaluated semi-annually by comparison with the Merrill Lynch 0-3 months U.S. Treasury Bills on a rolling 3 and 5 year total return basis.

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Article XXXIII
Investment Policy for Certificates of Deposit Program

OBJECTIVES

The Treasury places funds in certificates of deposit in Florida Qualified Public Depositories as established in Chapter 280, Florida Statutes.

PROGRAM GOAL

The goal of the program will be to maintain 5% of the Investment Pool balance with Qualified Public Depositories.

MATURITIES

Certificates of Deposit can be purchased for maturity periods of 1 year to 5 years.

RATES

Certificates of Deposit will be purchased at an interest rate of at least 105% of the prevailing rate for United States Treasury securities with a corresponding maturity at the time of purchase.

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Section 5
APPROVAL

Article XXXIV
Director of the Division of Treasury Approval

This Comprehensive Investment Policy has been reviewed and recommended for approval by the Investment Work Group and Treasury Investment Committee on February 29, 2012 and approved by the Director of the Division of Treasury.

APPROVED: Bert W _____
Bert Wilkerson
Director of the Division of Treasury

DATE: 2/29/2012

Section 6
APPENDICES

Appendix A

Section 17.57, Florida Statutes

17.57 Deposits and investments of state money.—

(1) The Chief Financial Officer, or other parties with the permission of the Chief Financial Officer, shall deposit the money of the state or any money in the State Treasury in such qualified public depositories of the state as will offer satisfactory collateral security for such deposits, pursuant to chapter 280. It is the duty of the Chief Financial Officer, consistent with the cash requirements of the state, to keep such money fully invested or deposited as provided herein in order that the state may realize maximum earnings and benefits.

(2) The Chief Financial Officer shall make funds available to meet the disbursement needs of the state. Funds which are not needed for this purpose shall be placed in qualified public depositories that will pay rates established by the Chief Financial Officer at levels not less than the prevailing rate for United States Treasury securities with a corresponding maturity. In the event money is available for interest-bearing time deposits or savings accounts as provided herein and qualified public depositories are unwilling to accept such money and pay thereon the rates established above, then such money which qualified public depositories are unwilling to accept shall be invested in:

- (a) Direct United States Treasury obligations.
- (b) Obligations of the Federal Farm Credit Banks.
- (c) Obligations of the Federal Home Loan Bank and its district banks.
- (d) Obligations of the Federal Home Loan Mortgage Corporation, including participation certificates.
- (e) Obligations guaranteed by the Government National Mortgage Association.
- (f) Obligations of the Federal National Mortgage Association.
- (g) Commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service.
- (h) Time drafts or bills of exchange drawn on and accepted by a commercial bank, otherwise known as “bankers acceptances,” which are accepted by a member bank of the Federal Reserve System having total deposits of not less than \$400 million or which are accepted by a commercial bank which is not a member of the Federal Reserve System with deposits of not less than \$400 million and which is licensed by a state government or the Federal Government, and whose senior debt issues are rated in one of the two highest rating categories by a nationally recognized rating service and which are held in custody by a domestic bank which is a member of the Federal Reserve System.
- (i) Corporate obligations or corporate master notes of any corporation within the United States, if the long-term obligations of such corporation are rated by at least two nationally recognized rating services in any one of the four highest classifications. However, if such obligations are rated by only one nationally recognized rating service, then the obligations shall be rated in any one of the two highest classifications.

- (j) Obligations of the Student Loan Marketing Association.
- (k) Obligations of the Resolution Funding Corporation.
- (l) Mortgage-backed securities of the highest credit quality.
- (m) Asset-backed securities rated by at least two nationally recognized rating services in any one of the three highest classifications. However, if such obligations are rated by only one nationally recognized rating service, the obligations must be rated in any one of the two highest classifications.
- (n) Any obligations not previously listed which are guaranteed as to principal and interest by the full faith and credit of the United States Government or are obligations of United States agencies or instrumentalities which are rated in the highest category by a nationally recognized rating service.
- (o) Commingled no-load investment funds or no-load mutual funds in which all securities held by the funds are authorized in this subsection.
- (p) Money market mutual funds as defined and regulated by the Securities and Exchange Commission.
- (q) Obligations of state and local governments rated in any of the four highest classifications by at least two nationally recognized rating services. However, if such obligations are rated by only one nationally recognized rating service, then the obligations shall be rated in any one of the two highest classifications.
- (r) Covered put and call options on investment instruments authorized in this subsection for the purpose of hedging transactions by investment managers to mitigate risk or to facilitate portfolio management.
- (s) Negotiable certificates of deposit issued by financial institutions whose long-term debt is rated in one of the three highest categories by at least two nationally recognized rating services, the investment in which shall not be prohibited by any provision of chapter 280.
- (t) Foreign bonds denominated in United States dollars and registered with the Securities and Exchange Commission for sale in the United States, if the long-term obligations of such issuers are rated by at least two nationally recognized rating services in any one of the four highest classifications. However, if such obligations are rated by only one nationally recognized rating service, the obligations shall be rated in any one of the two highest classifications.
- (u) Convertible debt obligations of any corporation domiciled within the United States, if the convertible debt issue is rated by at least two nationally recognized rating services in any one of the four highest classifications. However, if such obligations are rated by only one nationally recognized rating service, then the obligations shall be rated in any one of the two highest classifications.
- (v) Securities not otherwise described in this subsection. However, not more than 3 percent of the funds under the control of the Chief Financial Officer shall be invested in securities described in this paragraph.
- (w) Derivatives of investment instruments authorized in paragraphs (a)-(v).
- (x) Futures and options on futures, provided the instruments for such purpose are traded on a securities exchange or board of trade regulated by the Securities and Exchange Commission or the Commodity Futures Trading Commission.

These investments may be in varying maturities and may be in book-entry form. Investments made pursuant to this subsection may be under repurchase agreement or reverse repurchase agreement. The Chief Financial Officer may hire registered investment advisers and other consultants to assist in investment management and to pay fees directly from investment earnings. Investment securities, proprietary investment services related to contracts, performance evaluation services, investment-related equipment or software used directly to assist investment trading or investment accounting operations including bond calculators, telerates, Bloomburgs, special program calculators, intercom systems, and software used in accounting, communications, and trading, and advisory and consulting contracts made under this section are exempt from the provisions of chapter 287.

(3) In the event the financial institutions in the state do not make sufficient loan funds available for a residential conservation program pursuant to any plan approved by the Florida Public Service Commission under the Florida Energy Efficiency and Conservation Act, the board may authorize the investment of state funds, except retirement trust funds, in such a loan program at rates not less than prevailing United States Treasury bill rates. However, prior to investment of such funds, the Florida Public Service Commission shall develop a plan which must be approved by the Legislature before implementation.

(4) All earnings on any investments made pursuant to this section are hereby appropriated to the General Revenue Fund, except that earnings attributable to moneys made available pursuant to s. [17.61](#)(3)(a) and (b) shall be credited pro rata to the funds from which such moneys were made available.

(5) The fact that a municipal officer or a state officer, including an officer of any municipal or state agency, board, bureau, commission, institution, or department, is a stockholder or an officer or director of a bank or savings and loan association will not bar such bank or savings and loan association from being a depository of funds coming under the jurisdiction of any such municipal officer or state officer if it shall appear in the records of the municipal or state office that the governing body of such municipality or state agency has investigated and determined that such municipal or state officer is not favoring such banks or savings and loan associations over other qualified banks or savings and loan associations.

(6) The Chief Financial Officer is designated the cash management officer for the state and is charged with the coordination and supervision of procedures providing for the efficient handling of financial assets under the control of the State Treasury and each of the various state agencies, and of the judicial branch, as defined in s. [216.011](#). This responsibility shall include the supervision and approval of all banking relationships. Pursuant to this responsibility, the Chief Financial Officer may obtain information from financial institutions regarding depository accounts maintained by any agency or institution of the State of Florida.

(7) In addition to the deposits authorized under this section and notwithstanding any other provisions of law, funds that are not needed to meet the disbursement needs of the state may be deposited by the Chief Financial Officer in accordance with the following conditions:

(a) The funds are initially deposited in a qualified public depository, as defined in s. [280.02](#), selected by the Chief Financial Officer.

(b) The selected depository arranges for depositing the funds in financial deposit instruments insured by the Federal Deposit Insurance Corporation in one or more federally insured banks or savings and loan associations, wherever located, for the account of the state.

(c) The full amount of the principal and accrued interest of each financial deposit instrument is insured by the Federal Deposit Insurance Corporation.

(d) The selected depository acts as custodian for the state with respect to each financial deposit instrument issued for its account.

History.—s. 1, ch. 4586, 1897; GS 132; s. 1, ch. 7929, 1919; RGS 143; CGL 173; s. 1, ch. 17712, 1937; s. 1, ch. 23976, 1947; s. 1, ch. 57-354; s. 1, ch. 63-114; ss. 28, 35, ch. 69-106; s. 1, ch. 71-104; s. 1, ch. 77-155; s. 1, ch. 78-110; s. 7, ch. 80-65; s. 1, ch. 80-103; s. 55, ch. 80-257; s. 1, ch. 81-285; s. 1, ch. 81-295; s. 2, ch. 83-122; s. 1, ch. 85-138; s. 1, ch. 87-331; s. 8, ch. 88-374; s. 1, ch. 89-287; s. 1, ch. 90-357; s. 8, ch. 91-244; s. 1, ch. 92-87; s. 5, ch. 92-142; s. 1, ch. 93-75; s. 1, ch. 94-166; s. 1, ch. 96-177; s. 1, ch. 98-409; ss. 64, 65, ch. 2002-402; ss. 55, 56, ch. 2003-261; s. 3, ch. 2003-400; s. 3, ch. 2004-390; s. 1, ch. 2005-126; s. 3, ch. 2006-122; ss. 1, 2, ch. 2009-70; s. 1, ch. 2009-140.

Note.—Former s. 18.10.

Appendix B
Section 17.575, Florida Statutes

17.575 Administration of funds; Treasury Investment Committee.—

- (1) There is created a Treasury Investment Committee within the Division of Treasury consisting of at least five members who must possess special knowledge, experience, and familiarity in finance, investments, or accounting. The members of the committee shall be appointed by and serve at the pleasure of the Chief Financial Officer. The committee shall annually elect a chair and vice chair from among its membership.
- (2) The committee shall administer the Treasury Investment Program consistent with policies approved by the Chief Financial Officer for deposits and investments of public funds. The committee shall also make recommendations regarding investment policy to the Chief Financial Officer.
- (3) The committee shall submit an annual report outlining its activities and recommendations to the Chief Financial Officer and the Joint Legislative Auditing Committee. The report shall be submitted on August 15, 2009, and annually thereafter.

History.—s. 3, ch. 2009-70.

Appendix C

Section 17.61, Florida Statutes

17.61 Chief Financial Officer; powers and duties in the investment of certain funds.—

(1) The Chief Financial Officer shall invest all general revenue funds and all the trust funds and all agency funds of each state agency, and of the judicial branch, as defined in s. [216.011](#), and may, upon request, invest funds of any board, association, or entity created by the State Constitution or by law, except for the funds required to be invested pursuant to ss. [215.44-215.53](#), by the procedure and in the authorized securities prescribed in s. [17.57](#); for this purpose, the Chief Financial Officer may open and maintain one or more demand and safekeeping accounts in any bank or savings association for the investment and reinvestment and the purchase, sale, and exchange of funds and securities in the accounts. Funds in such accounts used solely for investments and reinvestments shall be considered investment funds and not funds on deposit, and such funds shall be exempt from the provisions of chapter 280. In addition, the securities or investments purchased or held under the provisions of this section and s. [17.57](#) may be loaned to securities dealers and banks and may be registered by the Chief Financial Officer in the name of a third-party nominee in order to facilitate such loans, provided the loan is collateralized by cash or United States government securities having a market value of at least 100 percent of the market value of the securities loaned. The Chief Financial Officer shall keep a separate account, designated by name and number, of each fund. Individual transactions and totals of all investments, or the share belonging to each fund, shall be recorded in the accounts.

(2) By and with the consent and approval of any constitutional board, the judicial branch, or agency now having the constitutional power to make investments and in accordance with this section, the Chief Financial Officer may make purchases, sales, exchanges, investments, and reinvestments for and on behalf of any such board.

(3)(a) Except as otherwise provided in this subsection, it is the duty of each state agency, and of the judicial branch, now or hereafter charged with the administration of the funds referred to in subsection (1) to make such moneys available for investment as fully as is consistent with the cash requirements of the particular fund and to authorize investment of such moneys by the Chief Financial Officer.

(b) Monthly, and more often as circumstances require, such agency or judicial branch shall notify the Chief Financial Officer of the amount available for investment; and the moneys shall be invested by the Chief Financial Officer. Such notification shall include the name and number of the fund for which the investments are to be made and the life of the investment if the principal sum is to be required for meeting obligations. This subsection, however, shall not be construed to make available for investment any funds other than those referred to in subsection (1).

(c) Except as provided in this paragraph and except for moneys described in paragraph (d), the following agencies may not invest trust fund moneys as provided in this section, but shall retain such moneys in their

respective trust funds for investment, with interest appropriated to the General Revenue Fund, pursuant to s. [17.57](#):

1. The Agency for Health Care Administration, except for the Tobacco Settlement Trust Fund.
 2. The Agency for Persons with Disabilities, except for:
 - a. The Federal Grants Trust Fund.
 - b. The Tobacco Settlement Trust Fund.
 3. The Department of Children and Family Services, except for:
 - a. The Alcohol, Drug Abuse, and Mental Health Trust Fund.
 - b. The Social Services Block Grant Trust Fund.
 - c. The Tobacco Settlement Trust Fund.
 - d. The Working Capital Trust Fund.
 4. The Department of Community Affairs, only for the Operating Trust Fund.
 5. The Department of Corrections.
 6. The Department of Elderly Affairs, except for:
 - a. The Federal Grants Trust Fund.
 - b. The Tobacco Settlement Trust Fund.
 7. The Department of Health, except for:
 - a. The Federal Grants Trust Fund.
 - b. The Grants and Donations Trust Fund.
 - c. The Maternal and Child Health Block Grant Trust Fund.
 - d. The Tobacco Settlement Trust Fund.
 8. The Department of Highway Safety and Motor Vehicles, only for the Security Deposits Trust Fund.
 9. The Department of Juvenile Justice.
 10. The Department of Law Enforcement.
 11. The Department of Legal Affairs.
 12. The Department of State, only for:
 - a. The Grants and Donations Trust Fund.
 - b. The Records Management Trust Fund.
 13. The Executive Office of the Governor, only for:
 - a. The Economic Development Transportation Trust Fund.
 - b. The Economic Development Trust Fund.
 14. The Florida Public Service Commission, only for the Florida Public Service Regulatory Trust Fund.
 15. The Justice Administrative Commission.
 16. The state courts system.
- (d) Moneys in any trust funds of the agencies in paragraph (c) may be invested pursuant to the provisions of this section if:
1. Investment of such moneys and the retention of interest is required by federal programs or mandates;

2. Investment of such moneys and the retention of interest is required by bond covenants, indentures, or resolutions;
3. Such moneys are held by the state in a trustee capacity as an agent or fiduciary for individuals, private organizations, or other governmental units; or
4. The Executive Office of the Governor determines, after consultation with the Legislature pursuant to the procedures of s. [216.177](#), that federal matching funds or contributions or private grants to any trust fund would be lost to the state.

(4)(a) There is hereby created in the State Treasury the Treasury Administrative and Investment Trust Fund.

(b) The Chief Financial Officer shall make an annual assessment of 0.12 percent against the average daily balance of those moneys made available pursuant to this section and 0.2 percent against the average daily balance of those funds requiring investment in a separate account. The proceeds of this assessment shall be deposited in the Treasury Administrative and Investment Trust Fund.

(c) The moneys so received and deposited in the fund shall be used by the Chief Financial Officer to defray the expense of his or her office in the discharge of the administrative and investment powers and duties prescribed by this section and this chapter, including the maintaining of an office and necessary supplies therefor, essential equipment and other materials, salaries and expenses of required personnel, and all other legitimate expenses relating to the administrative and investment powers and duties imposed upon and charged to the Chief Financial Officer under this section and this chapter. The unencumbered balance in the trust fund at the close of each quarter shall not exceed \$750,000. Any funds in excess of this amount shall be transferred unallocated to the General Revenue Fund. However, fees received from deferred compensation participants pursuant to s. [112.215](#) shall not be transferred to the General Revenue Fund and shall be used to operate the deferred compensation program.

(5) The transfer of the powers, duties, and responsibilities of existing state agencies and of the judicial branch made by this section to the Chief Financial Officer shall include only the particular powers, duties, and responsibilities hereby transferred, and all other existing powers shall in no way be affected by this section.

History.—s. 4, ch. 81-295; s. 5, ch. 84-137; s. 2, ch. 87-331; s. 2, ch. 89-549; s. 4, ch. 90-357; s. 4, ch. 92-87; s. 6, ch. 92-142; s. 2, ch. 94-166; s. 1313, ch. 95-147; s. 1, ch. 96-216; s. 1, ch. 99-159; ss. 66, 67, ch. 2002-402; ss. 60, 61, ch. 2003-261; s. 4, ch. 2003-400; s. 5, ch. 2004-390; s. 69, ch. 2006-227; s. 3, ch. 2007-13; s. 3, ch. 2008-16; s. 2, ch. 2009-71.

Note.—Former s. 215.535; s. 18.125.

Appendix D
Department of Financial Services (DFS)
Administrative Policies and Procedures
Number 5-05

I. TITLE:

Department of Financial Services Code of Ethics

II. AUTHORITY AND REFERENCES:

Florida Statutes: [Chapter 112, Part III](#)

Florida Administrative Code: [Chapters 60L-36.003](#)

III. PURPOSE:

All employees of the Department of Financial Services must adhere to the highest ethical standards. Acting ethically requires employees to do more than comply with the law. The Department of Financial Services (the “Department”) recognizes the importance of maintaining the highest ethical standards among its employees. The public expects its government officials to conduct the State’s business in an ethical, honest, and open manner. Employees are expected to know and comply with the Department’s Code of Ethics in addition to all state laws regarding ethics, including the statutory Code of Ethics found in [Chapter 112, Part III, Florida Statutes](#), and the provisions in the [Rule Chapter 60L-36.003, Florida Administrative Code](#).

IV. DEFINITIONS:

- A. "Business entity" means any corporation, partnership, limited partnership, proprietorship, firm, enterprise, franchise, association, self-employed individual, or trust, whether fictitiously named or not, doing business in this state.
- B. "Commission" means the Commission on Ethics created by [Section 112.320, Florida Statutes](#), or any successor to which its duties are transferred.
- C. “Committee of Continuous Existence” means any group, organization, association, or other such entity which is certified pursuant to the provisions of [Section 106.04, Florida Statutes](#), in making contributions to candidates, political committees, or political parties.
- D. “Conflict” or “conflict of interest” means a situation in which regard for a private interest tends to lead to disregard of a public duty or interest.
- E. “Department” means the Department of Financial Services.
- F. “Ethics Officer” means the General Counsel to the Chief Financial Officer (CFO) and is appointed to consult with Department employees on questions of ethics and compliance with the provisions of this policy.

- G. "Gift" means anything accepted by a person or on that person's behalf, whether directly or indirectly, for that person's benefit, and for which no payment is made in advance. A "gift" can include the following:
1. Real property.
 2. The use of real property.
 3. Tangible or intangible personal property.
 4. The use of tangible or intangible personal property.
 5. A preferential rate or terms on a debt, loan, goods, or services, which rate is below the customary rate and is not either a government rate available to all other similarly situated government employees or officials or a rate which is available to similarly situated members of the public by virtue of occupation, affiliation, age, religion, sex, or national origin.
 6. Forgiveness of indebtedness.
 7. Transportation, other than that provided to a public officer or employee by an agency in relation to officially approved governmental business, lodging, or parking.
 8. Food or beverage.
 9. Membership dues.
 10. Entrance fees, admission fees, or tickets to events, performances, or facilities.
 11. Plants, flowers, or floral arrangements.
 12. Services provided by persons pursuant to a professional license or certificate.
 13. Other personal services for which a fee is normally charged by the person providing the services.
 14. Any other similar service or thing having an attributable value not already provided for in this section.
- F. "Lobbyist" means any person who, for salary, fee, or other compensation, seeks, or sought during the preceding 12 months, to influence the governmental decision-making of a reporting individual or procurement employee or his or her agency or seeks, or sought during the preceding 12 months, to encourage the passage, defeat, or modification of any proposal or recommendation by the reporting individual or procurement employee or his or her agency.
- G. "Political Committee" means any two or more individuals, or a person other than an individual, that, in an aggregate amount in excess of \$500 during a single calendar year:
1. accepts contributions for the purposes of making contributions to any candidate, political committee, committee of continuous existence, or political party;

2. accepts contributions for the purpose of expressly advocating the election or defeat of a candidate or the passage or defeat of an issue;
3. makes expenditures that expressly advocate the election or defeat of a candidate or the passage or defeat of an issue; or
4. makes contributions to a common fund, other than a joint checking account between spouses, from which contributions are made to any candidate, political committee, committee of continuous existence, or political party.

H. "Relative" means an individual who is related to a public officer or employee as father, mother, son, daughter, brother, sister, uncle, aunt, first cousin, nephew, niece, husband, wife, father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, stepfather, stepmother, stepson, stepdaughter, stepbrother, stepsister, half brother, half sister, grandparent, great grandparent, grandchild, great grandchild, step grandparent, step great grandparent, step grandchild, step great grandchild, person who is engaged to be married to the public officer or employee or who otherwise holds himself out as or is generally known as the person whom the

public officer or employee intends to form a household, or any other natural person having the same legal residence as the public officer or employee.

I. "State Building" means any building owned or leased by the state in which state business is conducted.

V. ETHICAL GUIDELINES:

A. General Principles

1. Every employee of the Department is expected to treat colleagues and members of the public with courtesy and respect.
2. Department employees shall ensure that all disclosures made in accordance with the Code of Ethics laws are truthful, fair and accurate. Employees shall record information honestly, completely and accurately.

B. Conflict of Interest

1. A Department employee shall not maintain a personal or financial interest in a matter pending before the Department. Circumstances that do not constitute a conflict of interest are limited to:
 - (a) An employee seeking a license of some type with the Department.
 - (b) An employee who has filed a consumer complaint with the Department.
 - (c) An employee who has filed a claim for unclaimed property.
2. An employee shall, within twenty-four (24) hours of knowledge of a matter, notify his or her supervisor if an employee's relative, or a business in which the employee's relative retains a financial interest, has regulatory or contractual business pending before the Department. Circumstances that do not constitute a conflict of interest are limited to:

- (a) A relative seeking a license of some type with the Department.
 - (b) A relative who has filed a consumer complaint with the Department.
 - (c) A relative who has filed a claim for unclaimed property.
3. A Department employee shall not maintain employment or a contractual relationship with any business entity or any agency which is regulated by the Department, or is doing business with the Department, except that the employee may purchase goods or services from a business entity which is subject to the regulation of the Department if the price and terms of the transaction are available to members of the general public.
 4. A Department employee shall not maintain any employment or contractual relationship that will create a conflict between the employee's private interests and the performance of his or her public duties.
 5. If a Department employee applies for or is offered employment, the employee shall within three (3) days notify his or her supervisor of the employment application or job offer. If a Department employee is seeking or upon an entity offering any contractual relationship with an entity regulated by or doing business with the Department, the employee shall, prior to the seeking of the contractual relationship, or within three (3) days upon an entity offering the contractual relationship, notify his or her supervisor.

C. Abuse of Position of Public Trust

1. Department employees shall not use their official position, or the powers of their office, to benefit their own personal interests. This provision will be interpreted broadly to ensure that employees will not abuse the powers of their office for their own personal interests or gain. Examples of prohibited conduct are:
 - a. Accepting a discount on goods or services (not provided to the general public) from a vendor doing business with the Department.
 - b. Using a Department vehicle for personal purposes, except as may be permitted for law enforcement personnel.
 - c. Asking a vendor or contractor doing business with the Department to hire an employee's spouse, child, or other family member.
 - d. Using Department facilities, equipment, resources for political campaigns, or other political purposes.

D. Charitable Fundraising

1. The Department encourages employees to volunteer their personal time and resources to benefit not-for-profit charities and organizations. Department employees shall not solicit contributions to charitable entities from individuals or entities which are regulated by or do business with the Department. Such fundraising would be a violation of Section C of this Code of Ethics. Department employees may participate in the Florida State Employees Charitable Campaign

(FSECC) during normal business hours to the extent authorized by the CFO. Pursuant to [Section 110.181 \(1\) \(a\), F.S.](#), FSECC is the only authorized charitable fundraising drive directed toward

state employees within work areas during work hours. Division Directors, in consultation with the Ethics Officer, must approve solicitations related to charitable fundraising in the workplace.

E. Political Campaigns and Fundraising

1. Department employees have the right to participate in political campaigns during their personal time. Employees who participate in political campaigns or political activities during normal business hours should do so only when they have received prior approval to take annual leave. Employees are permitted to express their opinions on political subjects and candidates, take an active part in political campaigns outside of working hours, including the wearing of badges or buttons, and displaying bumper stickers and posters.
2. A Department employee who qualifies as a political candidate must notify the Chief of Human Resource Management and his immediate supervisor of his or her candidacy within three (3) days upon qualification.
3. No employee is permitted to make, solicit, or accept contributions for any political campaign in a state building. If a person attempts to deliver a contribution in a state building, the contribution should be refused and the person tendering the contribution should be informed that it is illegal to accept a contribution in a state building. The employee should also notify the Inspector General of the incident. Contributions received by mail at a state building must be returned to the sender.

F. Disclosure of Information Exempt from Public Release

1. Department employees may be privy to information which is exempt from public disclosure under Florida's public records law. Employees are prohibited from disclosing this information or using it for their own personal benefit.

G. Restrictions Upon Leaving the Department

1. A Senior Management Service (SMS) or Selected Exempt Service (SES) employee cannot personally represent another person or entity for compensation before the Department for a period of two (2) years following termination or retirement.
2. A former employee is prohibited from having any employment or contractual relationship for two (2) years with any business entity (other than a public agency) in connection with a contract for services which was within his or her responsibility while serving as a Department employee.

H. Restrictions Regarding Relatives

1. Employees with knowledge of applicants who possess characteristics particularly suitable to vacancies in the Department should feel welcome to refer those applicants to the Chief of Human Resource Management. However, employees are prohibited from influencing the hiring of relatives for positions within the Department by directly contacting the hiring manager. Anytime an employee recommends a relative for a position within the Department, the employee should first consult with the Department's Ethics Officer prior to making the recommendation.

2. An employee may not appoint, employ, promote, or advance for appointment, employment, promotion, or advancement, in or to a position, over which the employee exercises jurisdiction or control, any individual who is a relative of the employee.
3. Employees shall not procure contractual services for the Department from a business in which a relative is an officer, partner, director or owner.

I. Disclosure Requirements

1. Florida law requires certain employees to file a full and public disclosure of their financial interests with the Florida Commission on Ethics. This disclosure is designed to assure the public that employees' decisions are made impartially and in the public interest, and not for personal gain. Employees shall review and follow the applicable financial disclosure requirements found in [Section 112.3145, Florida Statutes](#).

J. The Receipt and Reporting of Gifts

1. The gift restrictions in this Code apply broadly to all Department employees.
2. An employee is prohibited from soliciting any gift from a political committee or committee of continuous existence, from a vendor doing business with the employee's agency, from a lobbyist who lobbies the Department, from the partner, firm, employer or principal of such lobbyist, or from a person or entity doing business with the Department.
3. An employee is prohibited from accepting any gift, directly or indirectly, from a political committee or committee of continuous existence, from a vendor doing business with the employee's agency, from a lobbyist who lobbies the Department, from the partner, firm, employer, or principal of such lobbyist, or from a person or entity doing business with the Department, unless the following limited exceptions apply:
 - (a) Gifts can be accepted from relatives, unless the relative is a lobbyist or a principal of a lobbyist, in which case the general prohibition on receipt of gifts from lobbyists applies. Employees who are married to or involved in a personal relationship with a lobbyist or the principal of a lobbyist shall consult with the Department's Ethics Officer on how to address this situation.
 - (b) Gifts can be accepted from personal friends in the ordinary course of friendship, provided that the personal friend is not:
 - (i) a lobbyist; or
 - (ii) a partner, firm, member, employer, employee or principal of a lobbyist; or
 - (iii) a person having a regulatory or contractual interest (either individually or through a corporation or organization) in a matter pending before the Department; or
 - (iv) a person who (either individually or through a corporation or organization) provides goods or services to the Department under contract or agreement; or
 - (v) a person (either individually or through a corporation or organization) seeking such business from the Department.

(c) On-site consumption of food or refreshment at receptions and/or other events (even if valued at over \$25.00) is permissible provided that the employee's attendance at such event is an appropriate exercise of the employee's official duties. The consumption of food or refreshment at such events, that is provided by or paid for by a lobbyist, principal of a lobbyist, a vendor doing business or seeking to do business with the Department, or an entity regulated

by the Department is prohibited. However, if the reception and/or event is part of a sponsored conference, meeting, or other function for which the Department has paid a registration fee or cost for the employee's attendance, and the registration fee or cost includes food or refreshment as part of the printed agenda or other registration materials, the food or refreshment is not a gift and is therefore allowable for on-site consumption.

4. If an employee receives an unsolicited gift which is prohibited under this Code of Ethics, the employee should notify his supervisor and return the gift to the sender. If an employee receives a perishable gift, such as a fruit basket, the employee should donate the gift to a charitable organization. The employee should then write the donor and explain that while appreciated, Department employees are prohibited from receiving gifts under this Code of Ethics.
 5. An employee is prohibited from soliciting or knowingly accepting an honorarium from a political committee or committee of continuous existence, from a vendor doing business with the employee's agency, from a lobbyist who lobbies the employee's agency, or from the employer, principal, partner, or firm of such a lobbyist.
- K. If an employee has any questions regarding this Code of Ethics, or needs practical advice regarding the ethics of a particular situation, the Ethics Officer to the Department is available to discuss these concerns.

Appendix E
Department of Financial Services (DFS)
Administrative Policies and Procedures
Number 1-02

I. TITLE

Internal Controls Policy

II. AUTHORITY

Florida Statutes: [Section 215.86](#) Management Systems and Controls

III. PURPOSE

The mission of the Department is: to safeguard the people of Florida and the state's assets through financial accountability, education, advocacy, fire safety, and enforcement.

The objective of this internal controls policy is to enhance the integrity of government operations, provide reasonable oversight of Department operations, ensure State funds and resources are used efficiently and effectively, and give reasonable assurance that State assets and resources are appropriately protected and managed. This policy shall apply to all Department of Financial Services (DFS) employees.

IV. STATEMENT OF POLICY

[Section 215.86, Florida Statutes](#), outlines each agency's responsibility for management and system controls. The Section states:

“Each state agency and the judicial branch as defined in [Section 216.011, F.S.](#), shall establish and maintain management systems and controls that promote and encourage compliance; economic, efficient, and effective operations; reliability of records and reports; and safeguarding of assets. Accounting systems and procedures shall be designed to fulfill the requirements of generally accepted accounting principles.”

In accordance with this Section, the Department, among its Divisions, shall establish and maintain a system of internal controls. Internal controls are those management driven practices and procedures designed to provide reasonable assurance that objectives are achieved. As used in this policy, the terms *management controls* and *internal controls* are meant to be interchangeable.

It is imperative that the Department's systems of internal controls properly safeguard confidential information, whether that information exists in electronic or paper format. The following is a list of generally-considered examples of confidential information:

1. Social Security numbers.
2. Bank account numbers.
3. Credit card numbers.
4. Certain financial records.
5. Risk Management claim files.
6. Certain emergency orders.
7. Investigations of active agents, adjusters, and other insurance representatives.

8. Records of active fraud investigations.
9. Health or medical information.
10. Trade secret or intellectual property.
11. Certificate or license numbers.
12. Certain information of active or former law enforcement personnel, judges, state attorneys, etc. and their spouses and children as defined by statute.
13. Whistle-blower investigations until published and the identity of persons designated as Whistle-blowers permanently.
14. Complaints of sexual harassment or other acts of unlawful discrimination and associated records while investigation of the complaint is active.
15. Risk analysis information relative to security threats to data, information, and information technology resources.
16. Results of internal audits and evaluations of the security program for an agency's data and information technology resources.
17. A complaint filed against a law enforcement officer and all information obtained pursuant to the investigation of such complaint until the investigation ceases to be active.
18. Agency records reflecting participation in the Employee Assistance Program.

For a complete source of types of confidential information, consult Appendix D of Florida's [Government-in-the-Sunshine Manual](#).

V. DEFINITIONS

Business Process: The activities that produce outputs, which contribute towards the achievement of the Department's mission. Each business process converts inputs to quantifiable outputs in order to achieve a defined objective. Direct business processes produce outputs that directly benefit Florida's citizens and businesses, as well as other government entities. Indirect business processes produce outputs that contribute to the accomplishment of direct business processes.

Business Process Owner: The person/position responsible for achievement of the business process objective(s). The business process owner has the authority to direct, change, allocate resource levels, and set the manner in which the process is managed.

Check Digits: A digit derived from and added to the other digits in a sequence, used to ensure that the sequence is correct.

Compliance Objective: The certification or confirmation process that meets the requirements of accepted practices, legislation, prescribed rules and regulations, specified standards, or the terms of a contract.

Confidential Information: Information that is exempted from disclosure requirements under the provisions of applicable state or federal law, e.g., the Florida Public Records Act.

Delegation of Authority: The formal conveyance of authority from one Department employee to another, which specifies for each area and each transaction type the individual(s) who are authorized to approve transactions for business and compliance purposes.

Event: An incident or occurrence, arising from internal or external sources, which affects achievement of objectives.

Executive Leadership: Collectively, the Chief Financial Officer, the Chief of Staff, the Deputy Chief Financial Officers, and the Deputy Chief of Staff.

Inherent Risk: The risk existing before management takes action to alter the risk's likelihood or impact.

Internal Controls: A system of control activities designed to provide reasonable assurance regarding the achievement of objectives within acceptable levels of risk.

Objective: The goal of a business process. Objectives can be categorized as Compliance Objectives, Reporting Objectives, Operational Objectives, and Safeguarding Objectives.

Operational Objective: Established standards of efficiency for achievement of process objectives.

Physical Safeguard: The measure(s) taken to prevent loss through the use of locks, burglar proofing, guards, etc., that prevent disaster through access controls, alarms, fireproof vaults, fire-suppression (sprinkler) systems, power backups, etc.

Reasonable Assurance: Acknowledgment that it is not possible to assert, with certainty, that an event will or will not occur.

Reconciliation: The item by item examination of two related sets of figures obtained from different sources.

Reporting Objective: The objective that all information reported on a process is valid and reliable.

Residual Risk: The remaining risk after management has taken action to alter the risk's likelihood or impact.

Risk: The possibility that an event will occur that adversely affects the achievement of objectives.

Risk Event: An incident or occurrence emanating from internal or external sources that affects implementation of strategy or achievement of objectives.

Risk Tolerance: The acceptable levels of variation relative to the achievement of objectives.

Safeguarding Objective: The objective of ensuring that assets are protected from loss or fraudulent activity.

Segregation of Duties: A control activity that prevents a single employee from performing and concealing an irregular transaction or event in the normal course of the employee's duties. Examples include:

- Duties for authorizing payment information, inputting new transactions, and verifying the accuracy of the transactions are functionally segregated.
- Software developers can have access to development and/or test data, but they should not have access to production data.

VI. INTERNAL CONTROLS OVERVIEW

Internal controls shall be applied to any process performed within the Department to ensure that the objectives of the business process are achieved within the acceptable level of risk. Internal controls provide assurance that potential risk events are prevented to the maximum extent possible. Properly designed, an internal control should provide more benefit than it costs. Risks events that may adversely impact achievement of objectives include but are not limited to:

- Loss or impairment of assets.
- Fraud upon the state.
- Misrepresentation of data.
- Failure to accomplish statutory requirements.
- Adverse publicity.
- Losing taxpayer trust.

Business process owners should consider the following five components when developing the system of internal controls for their business processes:

- Control Environment:** This is the demonstrated competence, attention, and integrity of the people in the organization. The way people perform their work is a product of the organization's governance approach, organizational structure, management's philosophy, and ethical values.
- Risk Assessment:** This involves identification and analysis of risks relevant to the achievement of the organization's objectives and forming a plan for determining how the risks should be managed. In considering its response, management should assess the effect on the risk likelihood and impact, as well as costs and benefits, selecting a response that brings residual risk within acceptable risk tolerances.
- Control Activities:** These are the policies, procedures, and techniques used to enforce management directives and ensure that actions are taken to properly address risks.
- Monitoring:** The system of internal controls is reviewed by management through monitoring. Monitoring tools and practices help ensure that internal controls are utilized and effective. These tools and practices should be adjusted or enhanced over time to remain sufficient for the current state of risks.
- Information and Communication:** This component provides the means by which the results of control and monitoring activities are recorded, organized, and applied in managing the process.

The following describes types of control activities utilized to ensure successful achievement of each process objective.

- Preventive controls are used to reduce the likelihood that an adverse risk event will occur. Examples include: segregation of incompatible duties, system access controls, required authorizations, physical safeguards, check digits, and repetitive data entry.
- Directive controls cause or encourage achievement of a process objective. Examples include: policies, training programs, performance standards, and compensation incentives.

- C. Detective controls reveal or detect undesirable events. Examples include: output reviews, reconciliations, exception reports, physical inventory, and audits.
- D. Mitigating or Compensating controls at least partially make up for a missing, excessively costly, or impractical control. Examples include: monitoring performance variances or budgets instead of individual transactions; delegation of authority to a subordinate to keep a process functioning when the responsible person is absent; temporarily adopting substitute controls when preferable controls are not available (as may exist during disaster recovery); and obtaining insurance or bonding.

The determination of the appropriate combination of controls is based on the nature of the risk and the costs to implement the controls. Generally, preventive controls are preferred and more effective than detective controls alone because it may be less costly to prevent a problem than to identify and correct a problem that has already occurred. The absence of effective preventive controls increases the probability that adverse risk events may occur. Likewise, the absence of detective controls increases the probability that adverse risk events will not be exposed when they occur.

VII. ROLES & RESPONSIBILITIES

A. Executive leadership is responsible for:

- 1. Delegating responsibility to business process owners for the accomplishment of each business process objective.
- 2. Establishing an ongoing formal process to monitor achievement of business process objectives.
- 3. Setting a tone of leadership that affects integrity, ethics, and other factors of a positive control environment.
- 4. Ensuring that risks associated with each business process are identified, prioritized, and effectively managed by business process owners through the use of appropriate internal controls.
- 5. Ensuring policies and procedures contribute to the achievement of the Department's mission.
- 6. Approval of all business process policies.
- 7. Following up on all tasks/directives issued to business process owners.

B. Business process owners are responsible for:

- 1. Developing policies that ensure achievement of business process objectives. Each policy shall:
 - a. Identify the business process owner.
 - b. Describe the process and its objectives.
 - c. Identify the regulatory authorities governing the process.
 - d. Identify risk events associated with the process.
 - e. Detail the controls used within the process to reduce inherent risks to acceptable levels.
 - f. Describe how the policy and the process' objectives support the Department's mission.
 - g. Identify metrics to monitor achievement of process objectives.
 - h. Identify roles and responsibilities for managing risk areas both inside and outside the process owner's organizational unit.
 - i. Mandate review of each policy at least every two years; to be performed more frequently if appropriate.
- 2. Approving all business process procedures.
- 3. Ensuring an on-going review and evaluation of business process risks, which include both opportunities as well as potential adverse events.
- 4. Monitoring the operation and effectiveness of internal controls under their purview.
- 5. Ensuring that effective controls are documented and implemented for each risk associated with their business process.

6. Ensuring that effective mitigating and compensating controls are in place when other controls cannot be cost-effectively implemented.
7. Ensuring employee training sufficiently provides adequate awareness and understanding of internal control standards to achieve the business process objectives.
8. Maintaining accurate position descriptions to properly define and assign controls necessary to ensure achievement of business process objectives.
9. Responding to concerns and suggestions raised by staff regarding the risks associated with achievement of business process objectives.
10. Responding to instances of staff's noncompliance with the system of internal controls, code of conduct, or any other policy violations or illegal activities.

C. Each employee is responsible for:

1. Knowing and following policies and procedures.
2. Identifying opportunities to increase the reliability and integrity of the Department's accounting and internal controls systems.
3. Notifying supervisors of problems and/or weaknesses in, and opportunities to enhance internal controls.
4. Notifying supervisors of instances of noncompliance with the system of internal controls or code of conduct and any other violations or illegal activities.

D. The Office of Inspector General is responsible for:

1. Conducting comprehensive compliance and performance audits of the agency and preparing audit reports of findings to ensure business processes are achieving objectives and contributing to the mission of the Department (as described in AP&P 6-03 Internal Audits).
2. Identifying risks and building a prioritized annual work plan to review the effectiveness of internal controls in achieving the organization's objectives.

VIII. VIOLATIONS

Violations of this policy may result in disciplinary action in accordance with [DFS AP&P 5-26](#), Standards and Procedures of Discipline-Career Service Employees. Violations of this policy may also be reported to the Inspector General for investigation.

IX. REFERENCES

The references listed below provide additional information about internal controls.

- [Section 20.055, F.S.](#) - Agency inspectors general.
- [Section 216.102, F.S.](#) - Filing of financial information; handling by Chief Financial Officer; penalty for noncompliance.
- [Chapter 60DD-2](#), Florida Administrative Code.
- Committee on Sponsoring Organizations of the Treadway Committee, *Internal Control – Integrated Framework*, <http://www.coso.org>.
- Maine Office of State Controller, *Internal Control Guide for Managers*, <http://www.maine.gov/osc/internalaudit/guideformanagers.htm>.
- American Institute of Certified Public Accountants, (AICPA) [Statement of Auditing Standards \(SAS\) No. 109: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement](#), March 2006, <http://www.aicpa.org/download/members/div/auditstd/AU-00314.PDF>.
- SAS No. 112: *Communicating Internal Control Related Matters Identified in an Audit*, May 2006, <http://www.aicpa.org/download/members/div/auditstd/AU-00325.PDF>.