

**Office of the State Controller**

Self-Assessment of Internal Controls

**Investment Cycle**

Objectives and Risks

Agency \_\_\_\_\_

Year-End \_\_\_\_\_

<u>Objectives</u>	<u>Risks</u>
All purchase or sales transactions are initiated by authorized individuals, conform to investment objectives, policies and regulations and are properly documented and approved.	<ul style="list-style-type: none"><li>• Unrecorded or unauthorized transactions; transactions at inappropriate prices or at unfavorable terms; payment of fictitious or inflated prices.</li></ul>
All documents evidencing ownership or other rights are subject to effective custodial accountability procedures and physical safeguards.	<ul style="list-style-type: none"><li>• Unauthorized use of assets for personal gain; loss or theft of assets.</li></ul>
All transactions are promptly and accurately recorded in adequate detail records and appropriate reports are issued.	<ul style="list-style-type: none"><li>• Misappropriation of interest income or proceeds from sales transactions; concealment of unauthorized transactions.</li></ul>
All transaction are properly accumulated, classified and summarized in the accounts.	<ul style="list-style-type: none"><li>• Misstatement of financial statements; concealment of misappropriations.</li></ul>

**Office of the State Controller**  
Self-Assessment of Internal Controls  
**Investment Cycle**  
Control Policies and Procedures

Agency \_\_\_\_\_

Year-End \_\_\_\_\_

**Bolded questions identify critical controls. A critical control is a control that will prevent or detect an error in the event that all other controls fail.**

**A. Control Activities / Information and Communication:**

Yes No N/A

- |     |     |     |   |
|-----|-----|-----|---|
| ___ | ___ | ___ | 1. Are there approved written policies and procedures that document investment processing and identify control procedures?          |
| ___ | ___ | ___ | 2. Are policies and procedures established to ensure investments are received or appropriately reflected in the custodial accounts? |
| ___ | ___ | ___ | 3. Are investment purchases or sells recorded in the sub-ledger/general ledger on the date traded?                                  |
| ___ | ___ | ___ | 4. Are policies and procedures established to ensure the purchase and sell of investments are properly recorded?                    |
| ___ | ___ | ___ | 5. Are competitive bids sought for certificate of deposit purchases?  |
| ___ | ___ | ___ | 6. Are certificates of deposit and interest coupons sufficiently safeguarded?   |
| ___ | ___ | ___ | 7. If applicable, are individuals with access to securities bonded?   |
| ___ | ___ | ___ | 8. Are policies and procedures established to ensure investment income received is recorded properly?                               |
| ___ | ___ | ___ | 9. Is investment income earned recorded on a timely basis?  |
| ___ | ___ | ___ | 10. Are investment earnings credited to the proper fund?  |
| ___ | ___ | ___ | 11. Are investment earning calculations and accruals reviewed at year-end?  |
| ___ | ___ | ___ | 12. Do specific procedures exist for tracking maturing investments and interest payments?   |

- \_\_\_ \_\_\_ \_\_\_ 13. **Are investment guidelines, including authorized individuals, investment asset allocation and safekeeping, formally approved and reviewed annually?**
- \_\_\_ \_\_\_ \_\_\_ 14. Is the acquisition and disposal of investments authorized by a person with approval authority?
- \_\_\_ \_\_\_ \_\_\_ 15. Have authority and responsibility been established for investment opportunity evaluation (investment performance review)?
- \_\_\_ \_\_\_ \_\_\_ 16. Are the following responsibilities performed by different people:
- \_\_\_ \_\_\_ \_\_\_ a. Cash flow management, investment transactions, safekeeping of the investments, and recording to the general ledger?
- \_\_\_ \_\_\_ \_\_\_ b. Record-keeping functions for securities and income separate from those having access to physical securities, those authorizing security transactions, and those having duties in the cash area?
- \_\_\_ \_\_\_ \_\_\_ c. Initiating, evaluating, and approving transactions segregated from those for detail accounting, general ledger and other related functions?
- \_\_\_ \_\_\_ \_\_\_ d. Monitoring investment market values and performance segregated from those performing investment acquisition?
- \_\_\_ \_\_\_ \_\_\_ e. Maintaining detail accounting records segregated from those for general ledger entries?
- \_\_\_ \_\_\_ \_\_\_ f. Custodial responsibilities for securities or for other documents evidencing ownership or other rights assigned to an official who has no accounting duties?
- \_\_\_ \_\_\_ \_\_\_ 17. **Does a governing body or statute restrict investments by asset type and/or limit amounts? Can officials override these restrictions with proper authorization?**
- \_\_\_ \_\_\_ \_\_\_ 18. **Are all securities held or registered in the name of the agency or the State Treasurer, if applicable?**
- \_\_\_ \_\_\_ \_\_\_ 19. Are detail records maintained that include the following information, if applicable, on each evidence of ownership:
- \_\_\_ \_\_\_ \_\_\_ a. Date of the purchase, identification of the investment, purchase amount or cost, and maturity date?
- \_\_\_ \_\_\_ \_\_\_ b. Physical location of item (i.e. safekeeping agent, etc.)?
- \_\_\_ \_\_\_ \_\_\_ c. Interest dividend or income rates and accrual or receipt dates?
- \_\_\_ \_\_\_ \_\_\_ d. Ownership by fund?

\_\_\_ \_\_\_ \_\_\_ 20. **Do procedures exist for reconciling the detail accounting records (custodian fiscal agent statements) with the sub-ledger/general ledger on a monthly basis? Are differences researched and resolved within a timely manner?**

**B. Monitoring:**

\_\_\_ \_\_\_ \_\_\_ 21. **Is the classification of investments in the sub-ledger/general ledger periodically reviewed? Does this classification agree with the note disclosures?**

\_\_\_ \_\_\_ \_\_\_ 22. Does a responsible official determine that the income earned is credited to the proper fund?

\_\_\_ \_\_\_ \_\_\_ 23. **In respect to question 17 above, does a responsible official determine that investments are of the character and type permitted by legal requirements? If restrictions are overridden, are the reasons and authority for the action properly documented?**

\_\_\_ \_\_\_ \_\_\_ 24. **Is the performance of the investment portfolio periodically evaluated quarterly by persons independent of investment portfolio management activities?**

\_\_\_ \_\_\_ \_\_\_ 25. Are appropriate personnel authorized to release securities from safekeeping agent authorized by the governing body?

\_\_\_ \_\_\_ \_\_\_ 26. Are securities or legal documents or agreements evidencing ownership or other rights kept in a vault with limited access, or preferable, protected in a safe deposit box, on deposit with a corporate trustee, or investment broker/custodian?

\_\_\_ \_\_\_ \_\_\_ 27. For agencies with an investment portfolio, does a written Ethics Policy, Conflicts of Interest, Delegation of Authority Policy exist and does it apply to all investment employees?

\_\_\_ \_\_\_ \_\_\_ 28. **Does management require personnel with investment authority to disclose any Conflicts of Interest on an annual basis?**

\_\_\_ \_\_\_ \_\_\_ 29. **For agencies with an investment portfolio, does management require a SAS 70, Type II report on the custodian's operations on an annual basis? This is an external audit report. Does management review the SAS 70, Type II report to verify that controls are operating correctly?**