Public Funds Investment Act: Best Practices for Internal Controls

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Today's Topics

PFIA Requirements

Effective Internal Controls for Compliance
INVESTMENT POLICY

A written policy is required and should include:

- Emphasis on safety of principal
- Requirements for investment diversification
- List of authorized investment types
- Rate change monitoring

Note: The policy should be reviewed at least annually.
INVESTMENT STRATEGY

As part of the Investment Policy, a written investment strategy for each fund/group of funds should include:

- Investment objective for each group of funds
- Suitability of investment
- Preservation and safety of principal
- Liquidity
- Marketability of investments
- Diversification of the investment portfolio
- Yield
INVESTMENT OFFICER

Individual(s) must be designated to be responsible for investment of entity funds consistent with the investment policy:

- Review the Investment Policy & Strategies annually for updates
- File conflicts of interest statement to the governing body of the entity and Texas Ethics Commission (if applicable)
- Develop operating procedures
- Monitor investment ratings
- Cannot be and investment officer in another governmental entity
INVESTMENT TRAINING

The governing board and Investment Officer(s) must complete periodic training:

► Training must be approved by governing board
► CFO/Treasurer and Investment officer must complete within 12 months of start date
► Training updates every 2 years
► Must include investment controls, security risks, strategy risks, market risks, diversification, and compliance with PFIA
AUDITS

Compliance audits of management controls must be periodically performed:

► Non-state agencies
  » Annual audit of compliance with policy and financial statements

► State agencies
  » Audit of compliance with policy every two years
INTERNAL MANAGEMENT REPORTS

Investment reports must be provided to entities' governing body at least quarterly, and include:

► Investment position of entity
► Summary of fund groups and individual investments
  » Beginning market value
  » Ending market value
  » Interest for reporting period
► State compliance with Investment Policy and Investment Strategy
Internal Controls

TOP-DOWN APPROACH

Internal controls are most effective when deployed in a top-down approach:

- Investment Committee/Officer
- Investment Policy and Strategy
- Training
- Written Procedures
- Delegation of Authority
- Segregation of Duties
- Reconciliation
- Reporting
- Insurance
Internal Controls

Establishing effective guidance and oversight is key to an effective internal control environment:

- **Investment Committee/Officer** oversees investment program and approves:
  
  » Investment Policy and Strategy
  » Broker/dealer selections
  » Investment advisor selection
Internal Controls

► **Investment Policy and Strategy** – clearly communicate goals and objectives
  » Review and update annually
  » Input from Investment Advisor
  » Ethical standards and disclosures

► **Training** – establish understanding of standards and controls
  » Training Policy
  » Report completed training to governing body
Internal Controls

Once clear guidance is established internal control activities can be established:

- **Written Procedures** – outline processes for making investment decisions
  - Transaction initiation
  - Wire transactions
  - Recording transactions
  - Safekeeping of investment

- **Delegation of Authority** – documented responsibilities and duties within procedures
  - Required approvals
  - Approval authorities
Internal Controls

► Segregation of Duties – reduce opportunities for error and fraud by appropriately separating job functions:

» Establish dual controls over sensitive information

» Require reviewers to be different than those responsible for initiating or recording transactions

» Require regular reconciliations and reviews

» Leverage the Delegation of Authority to establish requirements

» Establish minimum vacation requirements

» Don’t forget about IT access
Internal Controls

Monitoring procedures establish the last line of defense against errors and fraud:

► **Reconciliations** – reconcile investment accounts and activity on a monthly basis

► **Reporting** – require quarterly reports to management and board that report monthly activity and consider:
  » Average rate of return
  » Average days to maturity
  » Portfolio composition
  » Market valuation

► **Insurance** – secure appropriate bond coverage for employees to cover investment and cash handling responsibilities
Questions?