

Today's Speaker





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Today's Topics



PFIA Requirements

Effective Internal Controls for Compliance





PFIA REQUIREMENTS





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





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:

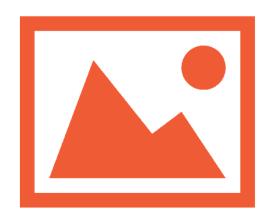


- ▶ Non-state agencies
 - » Annual audit of compliance with policy and financial statements
- State agencies
 - » Audit of compliance with policy every two years



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





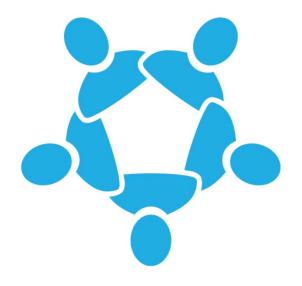
TOP-DOWN APPROACH

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





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





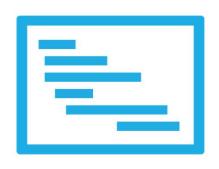
- ► Investment Policy and Strategy clearly communicate goals and objectives
 - » Review and update annually
 - » Input from Investment Advisor
 - » Ethical standards and disclosures



- Training establish understanding of standards and controls
 - » Training Policy
 - » Report completed training to governing body



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





- 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



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?