



Public Funds Investment Act: Best Practices for Internal Controls

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Today's Speaker



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Today's Topics

PFIA
Requirements

Effective Internal
Controls for
Compliance



PFIA REQUIREMENTS



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



Note: The policy should be reviewed at least annually.

PFIA Requirements

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

PFIA Requirements

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

PFIA Requirements

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

PFIA Requirements

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

PFIA Requirements

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



Internal Controls

TOP-DOWN APPROACH

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



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?