

Investments Checklist

Internal Controls

As public servants, it is our responsibility to safeguard taxpayer's dollars while adhering to laws and regulations governing processes over investing activities. Developing good internal controls for investing activities is important for the prudent investment of public funds as well as to prevent mishandling of funds and to safeguard against loss. Strong internal controls also protect employees by defining responsibilities in the investing process. Entities can use internal controls to protect against embezzlement, theft, fraud, and poor decision making.

This document does not address all possible circumstances that need to be considered when establishing internal controls or assessing risk. Each entity is responsible for reviewing their practices and processes to determine where risks exist and where and how controls can be established to mitigate them.

Control Objectives:

1. Controls are in place in the process to ensure accountability is established as early as possible at all points along the accountability chain.
2. Assets are safeguarded from loss through watchful and responsible care and reconciliation functions.
3. Segregation of duties, or mitigating controls, exists within transaction processes, custody, and recording functions.
4. Transactions and events are properly recorded.
5. Staff understands their duties, responsibilities, and accountabilities.
6. Investment practices are documented and in compliance with state laws and regulations.
7. Transaction activities are properly authorized.

Segregation of Duties:

Segregation of duties is one of the most important features of an internal control plan. The fundamental premise of segregated duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. These are called incompatible duties when performed by the same individual. Examples of incompatible duties include situations where the same individual (or small group of people) is responsible for:

- Managing both the operation of and record keeping for the same activity.
- Managing custodial activities and record keeping for the same assets.
- Authorizing transactions and managing the custody or disposal of the related assets or records.

Stated differently, there are four kinds of functional responsibilities that should be performed by different work units, or at a minimum, by different persons within the same unit:

1. Custody of assets involved: This duty refers to the actual physical possession or effective physical control/safekeeping of property.
2. Recording transactions: This duty refers to the accounting or record keeping function, which in most organizations, is accomplished by entering data into a computer system.
3. Authorization to execute transactions: This duty belongs to persons with authority and responsibility to initiate and execute transactions.
4. Periodic reviews and reconciliation of existing assets to recorded amounts: This duty refers to making comparisons at regular intervals and taking action to resolve differences.

The advantage derived from proper segregation of duties is twofold:

- Fraud is more difficult to commit because it would require collusion of two or more persons, and most people hesitate to seek the help of others to conduct wrongful acts.
- By handling different aspects of the transaction, innocent errors are more likely to be found and flagged for correction.

Individuals responsible for data entry of cash deposits should not be responsible for approving these documents:

- Individuals who prepare/record checks should not sign the checks.
- Individuals who prepare/record checks should not reconcile the checking account.
- Individuals responsible for cash receipts functions should be separate from those responsible for cash disbursements.

Example Segregation of Duties Controls Questions:

A.	Segregation of Duties:	Yes	No	N/A	Comments
1.	Are responsibilities for initiating, evaluating, and approving transactions segregated from those for detail accounting, general ledger entries, and other related functions?				
2.	Are responsibilities for initiating transactions segregated from approval authority?				
3.	Are responsibilities for monitoring investment market values and performance segregated from acquisition activities?				
4.	Are responsibilities for maintaining detail accounting records segregated from those for general ledger entries?				
5.	Are custodial responsibilities for securities or other documents evidencing ownership or other rights, assigned to an official with no accounting duties and no authorization to purchase, exchange, or sell investments?				
6.	Is access to investment applications and functions within programs limited to those who have a legitimate need?				
7.	Are all investment bank wire transfers independently reviewed and approved?				

Example Procedural Controls Questions:

B.	Procedural Controls:	Yes	No	N/A	Comments
1.	Is there a complete listing of all investments that are under the entity's control?				
2.	Have all investments been reported to a central accounting department or treasury department?				
3.	Is there a written investment policy available?				
4.	Do approval procedures include formal establishment and periodic review of investment policies?				
5.	Do approval procedures ensure only investments permitted by law or policies are acquired?				
6.	Do approval procedures include integration of the investment program with the cash management program and with expenditure requirements?				
7.	Is due diligence of broker-dealer and other financial institutions completed before business is conducted?				
8.	Is there an established authority and responsibility for investment-opportunity evaluation and purchase?				

B.	Procedural Controls:	Yes	No	N/A	Comments
9.	Is there a periodic evaluation of the performance of the investment portfolio by persons independent of investment portfolio management activities?				
10.	Do approval procedures include verification that all income due from investments has been received?				
11.	Are there formal procedures governing the level and nature of approvals required to purchase, exchange, or sell an investment?				
12.	Do approval procedures include competitive bidding for certificate-of-deposit purchases?				
13.	Is the authority to purchase, exchange, or sell investments clearly defined?				
14.	For investments in government securities, does the investment officer appear to understand the types of securities owned?				
15.	Do custodial procedures include registering all securities in the name of the entity?				
16.	Are all securities and legal documents or agreements, evidencing ownership or other rights, kept in a safe deposit box, safe, or vault?				
17.	Do custodial procedures include authorization by the appropriate body of authority with access to securities?				
18.	Do custodial procedures include bonding of individuals with access to securities?				
19.	Are dual signatures or authorizations required to obtain or release securities from safekeeping?				
20.	Are dual signatures or authorizations required to obtain access to the entity's safe deposit box?				
21.	Is a record maintained of all investments placed in or removed from the safe deposit box, safe, or vault?				
22.	Are combinations and keys to security devices restricted to a limited number of people and changed when employees rotate or leave their jobs?				
23.	Are there routine inspections or confirmation of securities maintained by safekeeping agents?				
24.	Is more than one person required to be present during inspection of investments?				
25.	Do detail accounting procedures include the maintenance of detail accounting records for investments by the investment department?				
26.	Do detail accounting procedures include the maintenance of detail accounting records for investments by the accounting department?				
27.	Is an accounting record/register maintained for each investment, including; cost, description, date purchased, interest rate, maturity date and identifying number?				
28.	Are there procedures to ensure transactions arising from investments are properly processed, including income and amortization entries?				
29.	Do detail accounting procedures include controls to ensure investment earnings are credited to the fund from which resources for the investment were provided?				

B.	Procedural Controls:	Yes	No	N/A	Comments
30.	Do detail accounting procedures include a periodic comparison between income received and the amount specified by the terms of the security, or from publicly available investment information?				
31.	Are there controls to ensure transactions are recorded on a timely basis?				
32.	Are investments that are received as gifts recorded at fair market value (or appraised value) at the date of gift?				
33.	If current market value (or fair value) is used to value investments, is this basis applied consistently for all investments in all funds?				
34.	Are procedures in place to reconcile the detail accounting records with the general ledger control?				
35.	Do procedures include a periodic review of the nature of investments included in general ledger balances?				
36.	Do general ledger procedures include monthly verification, provided by the custodian of principal and market values, of all investments and collateral?				
37.	Is the principal and market values provided by the custodian compared to internal (general ledger) records?				
38.	Are comparisons of book balances used in reconciliations with balances in the general ledger accounts?				
39.	Do general ledger procedures include a review and approval of all reconciliations by an official not responsible for receipts and disbursements?				
40.	Do general ledger procedures include an investigation of unusual reconciling items by an official not responsible for receipts and disbursements?				
41.	Is evidence of reviews and reconciliations signed by an official not responsible for receipts and disbursements?				