

Office of the State Controller

Self-Assessment of Internal Controls

Debt Cycle*

Objectives and Risks

Agency _____

Year-End _____

*** Cycle is only applicable to organizations that can legally issue debt. This will exclude most state agencies and related entities.**

<u>Objectives</u>	<u>Risks</u>
All debt transactions are initiated by authorized individuals and approved by the general assembly or by officials to whom this authority has been delegated.	<ul style="list-style-type: none">• Unnecessary borrowings; illegal borrowings; unidentified contractual or restrictive obligations.• Unauthorized issuance of debt securities; misappropriation of proceeds from debt transactions.
All documents relating to notes and other debt instruments are subject to effective custodial controls and physical safeguards.	<ul style="list-style-type: none">• Unauthorized use for unissued, canceled or retired debt instruments; loss or theft of negotiable instruments.
Adequate detailed accounting records are maintained and appropriate reports issued.	<ul style="list-style-type: none">• Unauthorized use of debt proceeds; undetected violations of debt covenants.
All transactions are properly accumulated, classified and summarized in the accounts.	<ul style="list-style-type: none">• Misstating financial statement balances; concealment of unauthorized debt payments.

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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.

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A. Control Activities / Information and Communication

Yes No N/A

- | | | |
|-------------|----|--|
| ___ ___ ___ | 1. | Is there a formal organizational chart which identifies the responsibilities for processing and recording debt? Are responsibilities clearly defined? |
| ___ ___ ___ | 2. | Are policies established to ensure that debt issuances are authorized? Does specific legislation or regulations allow the organization to issue debt? |
| ___ ___ ___ | 3. | Are separate accounting records maintained for each debt issuance? |
| ___ ___ ___ | 4. | Are all proceeds from bond issues subject to arbitrage rebate requirements accounted for separately from the agency's other funds to facilitate tracking of the investment earnings? |
| ___ ___ ___ | 5. | Are policies established to ensure that debt issuances are correctly recorded as to amount and fund? |
| ___ ___ ___ | 6. | Are policies established to ensure that proceeds from debt issuances are recorded properly? |
| ___ ___ ___ | 7. | Does the agency comply with all bond order and secondary market disclosure requirements and file all appropriate IRS forms (8038-G or 8038-GC)? |
| ___ ___ ___ | 8. | Is the agency compliant with all debt service and other fiscal requirements of the bond resolutions? |
| ___ ___ ___ | 9. | Are policies established to ensure that cash is available for payment of interest and matured debt? |

- ___ ___ ___ 10. Are policies established to ensure that interest payments are recorded properly?
- ___ ___ ___ 11. Are procedures established to ensure that the redemption of mature debt is correctly recorded as to amount and fund?
- ___ ___ ___ 12. Are procedures established to ensure that the defeasance of debt is correctly recorded as to amount and fund?
- ___ ___ ___ 13. Are policies established to ensure that access to unissued debt and related records is limited?
- ___ ___ ___ 14. Are interest payments reconciled to debt outstanding?
- ___ ___ ___ 15. **Are detail records of debt reconciled to general ledger controls monthly?**
- ___ ___ ___ 16. **Are the following responsibilities performed by different people?**
- ___ ___ ___ a. **Handling and recording of debt?**
- ___ ___ ___ b. **Reviewing and reconciling control accounts separate from the person who records the information?**
- ___ ___ ___ c. **Recording of cash separate from the recording of the debt?**
- ___ ___ ___ d. **Maintaining detail records of debt separate from cash functions?**
- ___ ___ ___ 17. Is a fiscal agent used for debt issue, interest payments, and redemption?
- ___ ___ ___ 18. Do evidences of debt and principal repayment checks/transfers require the signature of two responsible officials who are authorized and who are independent of each other?
- ___ ___ ___ 19. **Is debt issued only in the agency's name or in the State's name?**
- ___ ___ ___ 20. **If fiscal agents are used for the payment of bonds and interest, does the agency receive periodic reports of bonds outstanding and unclaimed interest and are these reports reconciled on a quarterly basis?**
- ___ ___ ___ 21. Is the agency meeting the arbitrage rebate requirements for all tax-exempt financing?

B. Monitoring:

- ___ ___ ___ 22. Are redeemed bond coupons canceled and accounted for prior to payment of bond interest and reconciled to bond records by an independent employee?
- ___ ___ ___ 23. In relation to question 2 above, do all debt issuances have to be properly authorized in accordance with applicable legal requirements (i.e. voters, governing body, other governmental agencies or top financial officers)?
- ___ ___ ___ 24. Does a responsible official determine that debt is retired from the appropriate revenue sources?
- ___ ___ ___ 25. Does a responsible official periodically determine whether the governmental unit is in compliance with agreement restrictions and report results to a higher authority?
- ___ ___ ___ 26. Does a responsible official review use of proceeds from bonds sales to ensure that proceeds are used in accordance with legal requirements?