

**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"><li>• Unnecessary borrowings; illegal borrowings; unidentified contractual or restrictive obligations.</li><li>• Unauthorized issuance of debt securities; misappropriation of proceeds from debt transactions.</li></ul>
All documents relating to notes and other debt instruments are subject to effective custodial controls and physical safeguards.	<ul style="list-style-type: none"><li>• Unauthorized use for unissued, canceled or retired debt instruments; loss or theft of negotiable instruments.</li></ul>
Adequate detail accounting records are maintained and appropriate reports issued.	<ul style="list-style-type: none"><li>• Unauthorized use of debt proceeds; undetected violations of debt covenants.</li></ul>
All transactions are properly accumulated, classified and summarized in the accounts.	<ul style="list-style-type: none"><li>• Misstating financial statement balances; concealment of unauthorized debt payments.</li></ul>

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Self-Assessment of Internal Controls

**Debt Cycle\***

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 clearly defined?
- \_\_\_ \_\_\_ \_\_\_ 2. Are policies established to ensure that debt issued is 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 issued is correctly recorded as to amount and fund?
- \_\_\_ \_\_\_ \_\_\_ 6. Are policies established to ensure that proceeds of debt issued are recorded properly?
- \_\_\_ \_\_\_ \_\_\_ 7. Are all bond order and secondary market disclosure requirements complied with and appropriate IRS forms (8038-G or 8038-GC) filed?
- \_\_\_ \_\_\_ \_\_\_ 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 on 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 on 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 issues 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?