

**Office of the State Controller**

Self-Assessment of Internal Controls

**Debt Cycle**

Objectives and Risks

Agency \_\_\_\_\_

Year-End \_\_\_\_\_

Objectives

All debt transactions are initiated by authorized individuals and approved by the general assembly or by officials to whom this authority has been delegated. **Cycle is applicable only to organizations that can legally issue debt. This will exclude most state agencies and related entities.**

All documents relating to notes and other debt instruments are subject to effective custodial controls and physical safeguards. **This objective will not be applicable to most state organizations. Most entities will not have negotiable instruments**

Adequate detail accounting records are maintained and appropriate reports issued.

All transactions are properly accumulated, classified and summarized in the accounts.

Risks

- Unnecessary borrowings; illegal borrowings; unidentified contractual or restrictive obligations.
- Unauthorized issuance of debt securities; misappropriation of proceeds from debt transactions.
- Unauthorized use for unissued, canceled or retired debt instruments; loss or theft of negotiable instruments.
- Unauthorized use of debt proceeds; undetected violations of debt covenants.
- Misstating financial statement balances; concealment of unauthorized debt payments.

**Office of the State Controller**  
Self-Assessment of Internal Controls  
**Debt Cycle**  
Control Policies and Procedures

Agency \_\_\_\_\_

Year-End \_\_\_\_\_

**A. Control Activities / Information and Communication**

\*\*\*\* Question will probably be N/A

Yes No N/A

- |     |     |     |   |
|-----|-----|-----|---|
| ___ | ___ | ___ | 1. Is there a formal plan of organization under which 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 policies established to ensure that the redemption of mature debt is correctly recorded as to amount and fund?  |

- \_\_\_ \_\_\_ \_\_\_ 12. Are policies 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 periodically?
- \_\_\_ \_\_\_ \_\_\_ 16. If practical, are the following duties generally 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 require the signature of two responsible officials who are authorized signers and who are independent of each other?
- \_\_\_ \_\_\_ \_\_\_ 19. Is unissued debt kept in a vault which has limited access? \*\*\*\*
- \_\_\_ \_\_\_ \_\_\_ 20. Is debt issued only in the agency's name or in the State's name.?
- \_\_\_ \_\_\_ \_\_\_ 21. Are unclaimed interest checks on bonds kept under adequate physical control by a responsible employee? \*\*\*\*
- \_\_\_ \_\_\_ \_\_\_ 22. If fiscal agents are used for the payment of bonds and interest, does the agency receive periodic reports of bonds outstanding and unclaimed interest?
- \_\_\_ \_\_\_ \_\_\_ 23. Is the agency meeting the arbitrage rebate requirements for all tax-exempt financing?

**B. Monitoring:**

- \_\_\_ \_\_\_ \_\_\_ 24. Are redeemed bond coupons canceled and accounted for prior to payment of bond interest and reconciled to bond records by an independent employee? \*\*\*\*

- \_\_\_ \_\_\_ \_\_\_ 25. 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)?
- \_\_\_ \_\_\_ \_\_\_ 26. Does a responsible official determine that debt is retired from the appropriate revenue sources?
- \_\_\_ \_\_\_ \_\_\_ 27. Does a responsible official periodically determine whether the governmental unit is in compliance with agreement restrictions and report results to a higher authority?
- \_\_\_ \_\_\_ \_\_\_ 28. Does a responsible official review lease agreements in effect to identify and properly account for lease purchase transactions?
- \_\_\_ \_\_\_ \_\_\_ 29. Does a responsible official review use of proceeds from bonds sales to ensure that proceeds are used in accordance with legal requirements?
- \_\_\_ \_\_\_ \_\_\_ 30. If bonds and bond coupons are cremated by a fiscal agent, does the agency receive periodic reports accounting for bonds and bond coupons cremated?