

## Ops – Using APM's Monthly Review Package

In addition to checking the numbers, current auditing standards\* require that fund auditors review the internal controls established by the investment manager and evaluate the effectiveness of those controls. An important part of those controls is having a process to understand and verify monthly performance valuations. In other words, managers need to establish a review process for the numbers that APM provides.

### **APM's "Detailed Financials Package"**

In order to create a framework and straightforward process for managers to check our work, APM is providing managers with a new monitoring report. The Detailed Financials Package will provide not only a way to verify the monthly performance valuation, but also allow managers to gain a greater understanding of APM's internal accounting processes. We anticipate this report will reduce any confusion regarding the valuation process that may have previously existed.

*The Detailed Financials Package* is designed to support the following manager review sequence:

1. Verify that fund assets reported by APM reasonably tie to the values reported by brokers.
2. Use a global process to estimate fund net return for comparison to APM's reported number.
3. Review income details expressed as percentages so as to highlight unusual values.
4. Review the General Ledger inputs for the month.
5. Review and confirm the accuracy of a table of parameters for investors showing fee rates, ERISA and restricted status.

### **Using the Detailed Financials Package**

The Detailed Financials Package contains five sub-reports in total:

- *Market Value to Partners' Capital Reconciliation ("Broker Rec" tab)* - The purpose of this report is to provide a "big picture" check between the brokerage values and the APM fund valuation, highlighting the primary differences, which are normally the accruals, fees and intangible assets that are not included at the broker level. The first section of the report shows broker level market value figures, both on a cash basis excluding accruals and on a cash basis including accruals. The remaining sections of the report provide a breakdown of the remaining balance sheet items. Details of these items can be found by examining the General Ledger (a description of this report follows below). The last line of the report, "Total Partners' Capital" will tie to both the Flash Report as well as the next report, Gross to Net Global Return Recalculation.
- *Gross to Net Global Return Recalculation ("Gross to Net Rec" tab)* - The purpose of this report is to perform a "back-of-the-envelope" recalculation of the monthly official fund return found on the Flash report. The top portion of the report displays opening capital followed by income and expenses, followed by ending capital. This ending capital amount ties to the previous report, Market Value to Partners' Capital Reconciliation. The second half of the report breaks out the percentage affect of various fee items such as the management fee and incentive fee. The "Current period gain/(loss)" line ties to the next report, Income Details.

### **Using the Detailed Financials Package** continued

\* The AICPA's "Statements on Auditing Standards" (SAS) numbers 104 through 111 and number 114 are effective for audits of financial statements for years ended December 31, 2007 and later.

- *Income Details (“Income Detail” tab)* - This report is similar to an income statement; however, with much more detail. It breaks performance down based on the dollar change as well as percentage change based on each income item. The last line of the report, “Gross Income/Gross Loss”, ties back to the previous report, Gross to Net Global Return Recalculation. Note that the percentage figures on the Income Details report really are “back-of-the-envelope.” Because fees and incentives are calculated separately for each participant – including the “tracking account” – there can be small differences between a global fund-level estimate and the actual net return.
- *General Ledger (“General Ledger” tab)* - This report gives the detailed double-entry accounting figures for the month. The column headers state the account name while the row headers give the transaction type. By calculating the change in any income/expense account (ending capital minus beginning capital) the figures can all be tied back to the previous report, Income Details.
- *Investor Fee Rates, ERISA & Restriction Status (“Inv Fee Rates” tab)* - This last report displays the way we have coded each investor’s unique fee arrangements, ERISA status, and restriction status. It is important for fund management to review these items for accuracy in the event information is incorrect or investor status has changed.

Through the use of these reports, fund management should be able to get a sound understanding of the accruals, income items, balance sheet items, and individual investor standings. It is important to

understand that several of these reports are “backing” into returns or dollar figures as a check to the official fund valuation methodology. Small dollar and basis point variances between reports are expected and should be disregarded.

### **Documenting the Review Process and File Retention**

In order to expedite and simplify the annual audit process, APM suggests fund management maintain electronic copies of the monthly “Detailed Financials Package.” The financial controls process would be further perfected if fund management devises a system to document a contemporaneous monthly review of the package and other APM-provided reports.

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