



## **Summary of Internal Audit Comments**

**FY2018**

As Of Date	Name of Report	High-Level Audit Objective(s)
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No. Status	Condition	Cause	Criteria	Effect	Recommendation
<i>Management Response</i>					

09/01/17	Investment Management Division	The purpose of this review was to document the business processes, determine controls over these processes, identify internal control design weaknesses, and test existing controls to determine their effectiveness. Controls were evaluated according to financial industry standards and best practices			
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01 Incomplete/ Ongoing	Several documents on the TTSTC intranet site library were not up to date.	<p>Texpool and Texpool Prime policies indicate a last review date of August 2016 instead of the correct date of August 2017.</p> <p>Investment Policy Statement, Texas Economic Stabilization Investment Fund notes an August 2017 review date. This is not documented or supported by the Investment Advisory Board books.</p> <p>Investment Manager Monitoring and Review Policy and Procedure has no date of last review and was last updated on August 17, 2010.</p>	Best industry practice.	Reliance on inaccurate or erroneous information.	Information on the intranet site should be kept accurate and current or not posted. Review by a second party, not having primary responsibility for maintenance of the intranet site, is recommended.
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*Management agrees with the recommendations. The above referenced policy review date errors were the product of typos. All investment policies are reviewed annually. The Investment Manager Monitoring and Review Policy and Procedure was last revised in May 2013. The public audit reports posted on the Trust Company internet are all current. A policy was adopted in January 2018 assigning responsibility to the Trust Company Compliance Officer to ensure that all policies and procedures are reviewed annually and that those dates are accurately reflected in the intranet library. Financial audit reports will be posted and maintained only on the Trust Company internet site.*

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*Management Response*

09/30/17	Alternative Investments	The purpose of this review was to document the business processes, determine controls over these processes, identify internal control design weaknesses, and test existing controls to determine their effectiveness. Controls were evaluated according to financial industry standards and best practices.			
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01 Substantially Implemented.	As of the audit date, <u>09/30/17</u> , the following deficiencies in due diligence documentation contained in Code Red were noted: <ul style="list-style-type: none"> <li>Last Site Visit greater than 2 years old.</li> <li>Current Financial statement not documented.</li> <li>Monthly or quarterly statements not documented.</li> </ul>	These appear to be the result of error or over sight.	Policy and industry best practice.	In the absence of a well-documented, ongoing due diligence reviews of alternative assets, the probability of monetary losses and lost opportunities is increased. In addition, the opportunity to mitigate this exposure can be lost.	Due diligence supporting current and new investment holdings should be performed and documented in a complete and timely manner in accordance with policy.
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*Management generally concurs with the findings presented in the audit memorandum concerning the requirements for performing and recommendations for complete and timely posting of due diligence documentation.*

*With minor exceptions, since the September 30, 2017 reporting period, all actual deficiencies have been corrected. Review and monitoring processes have been implemented to improve the timeliness of conducting and documenting due diligence procedures.*

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*Management Response*

11/30/17	BidTex	<p>To determine:</p> <ol style="list-style-type: none"> <li>1. Depositories are approved and approved deposit limits are less than or equal to two times the bank's capital and surplus.</li> <li>2. Interest rates received at auction were in excess of the minimum floor rate.</li> <li>3. Reconcilements are accurately documented.</li> <li>4. Collateral for deposits is sufficient.</li> <li>5. Accuracy and timeliness of the reconcilement of incoming wire transfers.</li> <li>6. Interest on deposits is received in an accurate and timely manner.</li> <li>7. Compliance by depositories with minimum capital standards.</li> <li>8. Depository banks have a CRA Rating of Satisfactory or greater.</li> <li>9. Verification that transactions posted in a timely and accurate manner.</li> <li>10. Compliance with the State Depository Handbook.</li> </ol>			
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01 Substantially Implemented.	Documentation of BidTex funds transfers to and from the depository banks is inconsistent and difficult to track.	<p>The "CPID" number is an identifier unique to each depository bank.</p> <p>Currently, banks are requested to provide the "CPID" number when returning BidTex funds and interest to the Trust Company. However, compliance is inconsistent.</p>	Comptroller's Depository Handbook.	Industry best practice.	Documentation of BidTex funds transfers should be improved by including the "CPID" number in the request form and the SSRS reports.
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*Management agrees with the recommendation. The CPID number will be included on outgoing BidTX wires beginning 2/13/2018. In addition, we will continue to encourage the banks to provide the "CPID" number when returning BidTex funds and interest to the Trust Company.*

As Of Date	Name of Report	High-Level Audit Objective(s)
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<i>Management Response</i>					

12/31/2017	Custody Settlement	The purpose of this review was to document the business processes, determine controls over these processes, identify internal control design weaknesses, and test existing controls to determine their effectiveness. Controls were evaluated according to financial industry standards and best practices.			
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01 Fully Implemented.	Documentation of the safe access log needs to be improved.	Currently the log indicates that a selection is to be circled once in each column. Instances were noted where no or more than one item were circled.	Industry best practice.	Currently the log does not provide an accurate record of access.	A revision of the log is recommended.
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*As recommended, management has revised the safe access log in order to provide a more accurate record of access. The revised log went into use on 1/18/2018.*

As Of Date	Name of Report	High-Level Audit Objective(s)
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*Management Response*

01/31/2018	Administrative Operations	The purpose of this review was to document the business processes, determine controls over these processes, identify internal control design weaknesses, and test existing controls to determine their effectiveness. Controls were evaluated according to financial industry standards and best practices.			
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01 Substantially Implemented.	Test work revealed that several travel vouchers evidenced manual alteration of amounts.	Manual correction of errors.	Industry best practice.	Alterations were illegible and it could not be determined what expenses were approved.	Travel vouchers that require changes should be reprinted and approved.
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*Management agrees that travel vouchers should not show manual corrections. Should an error in the voucher be discovered, staff responsible for executing travel vouchers have been instructed to reprint a clean voucher and resubmit for approval.*

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<i>Management Response</i>					

02/28/2018	Accounting and Trust Operations	<p>To determine the extent to which:</p> <ul style="list-style-type: none"> <li>▪ Assets transferred to the department are properly recorded and controlled.</li> <li>▪ Records are sufficient to permit an accurate accounting.</li> <li>▪ Internal control procedures are adequate.</li> <li>▪ Duties of the department, whether established by law or contract, are properly executed in a timely manner. Included among these responsibilities are: accounting for trust assets, collecting income and principal, paying expenses, and distributing income and principal.</li> <li>▪ Proper fees have been collected and recorded in a timely fashion.</li> </ul>			
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01 Fully Implemented.	Reconciliations of General Ledger Account 17650 Preferred Stock are unnecessarily performed on a monthly basis.	DTC Statements for Preferred Stock are only issued quarterly.	Industry best practice.	Inefficient use of company resources.	Reconciliations of GL Account 17650 Preferred Stock should be performed quarterly.
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*Management agrees and will change the reconciliation schedule to quarterly for account 17650 Preferred Stock.*

02 Incomplete/ Ongoing.	Reconcilements of MIP (10300) Cash to Q2 CM Holdings were noted to be one to two months after the “as of date. In addition, several other general ledger account reconcilements were not completed until more than one month after the “as of date”.	Inquiry revealed that the Sim Corp conversion together with staffing shortages were the primary causes	Policy and Industry best practice.	In the absence of timely reconcilement of general accounts, discrepancies may go undetected for an extended period of time and reduce the possibility of correction.	Additional resources should be dedicated to bringing reconcilements current.
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*Management is aware that there are risk of undetected discrepancies when accounts are not reconciled timely but in order to mitigate this risk, the Q2 subsidiary cash ledger is reconciled to the Federal Reserve, DTC, Bank of America and JP Morgan Chase on a daily basis. This provides management with sufficient information to detect any transaction or balance discrepancies. Although the monthly reconciliation to the MIP General Ledger is important to ensure financial reporting is accurate, the daily reconciliations of Q2 to the FED, DTC and Banks are designed to identify discrepancies faster thereby reducing the risk of undetected misstatements and allow for corrections in a timely manner.*

*Management further agrees that timely reconcilements should be a priority and is actively working to achieve this goal. Target date is 08/31/18 to have all MIP GL to Q2 reconcilements back on their regular completion schedule.*

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**Management Response**

04/30/18	Systems and Support	<p>To determine that:</p> <ul style="list-style-type: none"> <li>Facilities are managed to provide a suitable physical surrounding, which protects the IT equipment and people against man-made and natural hazards. This is enabled by the installation of suitable environmental and physical controls, which are regularly reviewed for their proper functioning.</li> <li>Systems security safeguards information against unauthorized use, disclosure or modification, damage or loss. This is enabled by logical access controls, which ensure that access to systems, data and programs is restricted to authorized users.</li> <li>IT services are available as required and to ensure a minimum business impact in the event of a major disruption. This is enabled by having an operational and tested IT continuity plan, which is in line with the overall business continuity plan and its related business requirements.</li> <li>System configurations are managed to account for all IT components, prevent unauthorized alterations, verify physical existence and provide a basis for sound change management. This is enabled by controls, which identify and record all IT assets and their physical location, and a regular verification program, which confirms their existence.</li> <li>Data is managed in a manner to ensure its completeness, accuracy, and validity during its input, update and storage. This is enabled by an effective combination of application and general controls over the IT operations.</li> <li>Problems and incidents are resolved, and the cause investigated to prevent any recurrence. This is enabled by a problem management system, which records and progresses all incidents.</li> </ul>			
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Incomplete/Ongoing.	A review of keycard access changes found that approval by a second party was not documented.	Keycard access approvals were not documented in emails and retained.	Settlements & Custody Services Key Card Access Authorization Procedure.	Noncompliance with management directives as documented in procedure.	We recommend compliance with the procedure or its revision.
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*Management agrees that compliance with the policy is necessary and the policy is being revised at this time. Currently multiple policies exist that combine this issue with other controls in the S&CS area which has led to non-compliance because all directives are not precisely the same. Management will merge the multiple policies into one and revise as necessary. Revisions will be completed and the new policy as it will exist will be posted on the intranet no later than October 1, 2018.*



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*Management Response*

05/31/18	Unclaimed Property	<p>To determine the extent to which:</p> <ul style="list-style-type: none"> <li>▪ Assets transferred to and remitted by the department are properly recorded and controlled.</li> <li>▪ Records are sufficient to permit an accurate accounting.</li> <li>▪ Internal control procedures are adequate.</li> <li>▪ Duties of the department, whether established by law or contract, are properly executed in a timely manner.</li> </ul>			
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01 Incomplete/ Ongoing.	As of the audit date, a new procedure for the sale of unclaimed securities has not been drafted and implemented.	A new unclaimed property system has made the prior procedure obsolete and a new procedure cannot be completed until the new system is fully implemented.	Industry best practice.	In the absence of a documented procedure there is an increased risk of error or misappropriation.	A new procedure for the sale of unclaimed property securities should be drafted and implemented.
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*Management agrees that procedures for the sale of securities held in custody for the Unclaimed Property Program should be updated to reflect the implementation of the new investment accounting system. The procedure update will be completed and submitted to the Policies & Procedure Coordinator by October 1, 2018.*