



# **Internal Audit Annual Report FY 2017**

- I. Compliance with House Bill 16.**
- II. Internal Audit Plan for Fiscal Year 2017.**
- III. Consulting Services and Non-audit Services Completed.**
- IV. External Quality Assurance Review (Peer Review).**
- V. Internal Audit Plan for Fiscal Year 2018.**
- VI. External Audit Services Procured in Fiscal Year 2017.**
- VII. Reporting Suspected Fraud and Abuse.**

## **I. Compliance with Texas Government Code 2102**

An approved fiscal year 2017 audit plan (as provided by Texas Government Code, Section 2102.008) as a part of the fiscal year 2017 internal audit annual report (as required by Texas Government Code, Section 2102.009) will be posted on the TTSTC web site.

A summary of any weaknesses or concerns resulting from the audit plan or annual report and actions taken to address those issues are applicable to the fiscal year 2017 audit plan or annual report will be posted on the TTSTC web site.

## II. Internal Audit Plan for Fiscal Year 2017



### Internal Audit Plan Fiscal Year 2017

#### MISSION

The mission of the Internal Audit is to help create the processes required for organizational success. This is accomplished by independently and objectively evaluating the operations and internal controls within the organization and providing management with analyses, appraisals, and recommendations to strengthen operations and controls.

#### AUDIT CHARTER

The Audit Charter provides authorization to Internal Audit for full, free and unrestricted access to all Trust Company activities, records, property and personnel relevant to the subject under review. The charter also defines the reporting relationship, scope of work, and follow-up responsibilities.

#### PHILOSOPHY

Duties of the internal auditor will be performed in an ethical and fair manner. All services will be performed with proficiency and due professional care. Training and continuing professional education will be obtained to ensure that these responsibilities are carried out professionally and efficiently. The internal auditor will strive to maintain a partnership with management and staff that is based on good communication and mutual respect.

#### STAFF / AVAILABLE HOURS

The auditor for the Texas Treasury Safekeeping Trust Company holds a Bachelor's Degree in Accounting and the following certifications:

- Certified Internal Auditor (CIA).
- Certified Information Systems Auditor (CISA).
- Certified Investments and Derivatives Auditor (CIDA).
- Certified Financial Services Auditor (CFSA).
- Certified Bank Auditor (CBA).

After accounting for holidays, vacation, sick leave, and required training, **1800 hours are available for audits**, special projects, and follow-up reviews for this fiscal year. (See the Internal Audit Plan Appendix)

## **RISK ASSESSMENT PROCESS**

The fiscal year 2017 audit plan is based on a risk assessment process and focuses on key processes that support the business objectives of the Trust Company:

- Preservation of Capital and Principal.
- Maintenance of Sufficient Liquidity.
- Security of State Funds and Investments.
- Diversification of Investments.
- Maximization of Return.

Sources used in the risk assessment process include:

- Concerns expressed by executive management.
- Business plans, organization charts, web pages, directors' reports, legislation, newspaper articles, and audit reports.
- Internal Audit Comments.
- Internal Auditor's knowledge and judgment.

Internal Audit developed a spreadsheet listing each audit area.

Next, information was evaluated using the following risk factors:

- Prior audit findings,
- Perceived sensitivity,
- The control environment,
- Confidence in operating management,
- Changes in people or systems, and
- Complexity.

After the information was evaluated and rated a total risk score was determined for each audit area. Audit areas were then sorted in descending order by their risk score. (See the Internal Audit Plan Appendix)

The next step of the risk assessment process required the use of auditor judgment. Results were reviewed to determine if key process scores and rankings appeared reasonable.

## Internal Audit Plan Appendix

Audit Projects						
Audit Area	Occurrence	Planned Commencement	Risk Rating	Audit Hours	% of Total Project Hours	% of Total Annual Hours
Custody Settlement	Annual	2nd Quarter	12.20	160	9%	8%
Alternative Investments	Annual	1st Quarter	10.40	200	11%	10%
Alternative Investments	Continuous	Monthly	10.40	120	7%	6%
Unclaimed Property	Annual	4th Quarter	10.20	160	9%	8%
Systems Support	Annual	4th Quarter	9.60	200	11%	10%
Accounting	Annual	3rd Quarter	8.50	280	16%	13%
BidTex	Biennial	2nd Quarter	8.50	160	9%	8%
Investments	Annual	1st Quarter	8.00	200	11%	10%
Administrative Services	Biennial	3rd Quarter	7.40	160	9%	8%
<b>Total Audit Project Hours</b>				<b>1640</b>	<b>91%</b>	<b>79%</b>

**III. Consulting Engagements and Non-audit Services Completed.**

**None.**

#### IV. External Quality Assurance Review (Peer Review)

##### Texas Treasury Safekeeping Trust Company Internal Audit Self-Assessment Report for Independent Validation

##### OVERALL OPINION

Based on the information received and evaluated during this external validation quality assurance review, it is my opinion that the Texas Treasury Safekeeping Trust Company (TTSTC) Internal Audit function (IAF) **generally conforms** with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*.

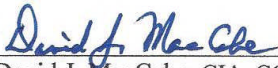
This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

I found that the IAF is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The internal auditor is qualified, proficient, and knowledgeable in the areas audited. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The internal auditor has effective relationships with TTSTC management and is well respected. Interviews conducted during the quality assurance review indicate that management considers the IAF a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the company's operations.

##### ACKNOWLEDGEMENTS

I appreciate the courtesy and cooperation extended to me by the internal auditor and the TTSTC executive management who participated in the interview process. The feedback from interviews provided valuable information regarding the IAF function and the internal auditor's relationship with the TTSTC management and staff.

  
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David J. MacCabe, CIA, CGAP, CRMA, MPA  
Independent Validator

9/27/2013  
Date



## V. Internal Audit Plan for Fiscal Year 2018



### Internal Audit Plan Fiscal Year 2018

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## VI. External Audit Services Procured in Fiscal Year 2017

As of Date	Audit Firm	Auditee	Type of Audit
8/31/2016	Padgett, Stratemann, & Co., L.L.P.	Texas Treasury Safekeeping Trust Company	Basic Financial Statements
8/31/2016	Padgett, Stratemann, & Co., L.L.P.	Texas Local Government Investment Pool	Basic Financial Statements
8/31/2016	Padgett, Stratemann, & Co., L.L.P.	Texas Local Government Investment Pool	Investment Policy Compliance
8/31/2016	Padgett, Stratemann, & Co., L.L.P.	Texas Local Government Investment Pool - Prime	Basic Financial Statements
8/31/2016	Padgett, Stratemann, & Co., L.L.P.	Texas Local Government Investment Pool - Prime	Investment Policy Compliance
12/31/2016	Padgett, Stratemann, & Co., L.L.P.	Tobacco Settlement Permanent Trust Fund	Basic Financial Statements
12/31/2016	Padgett, Stratemann, & Co., L.L.P.	Tobacco Settlement Permanent Trust Fund	Distribution Policy Compliance
12/31/2016	Padgett, Stratemann, & Co., L.L.P.	Tobacco Settlement Permanent Trust Fund	Investment Policy Compliance
9/30/2016	Padgett, Stratemann, & Co., L.L.P.	Texas Treasury Safekeeping Trust Company	Incentive Compensation Plan
9/30/2016	Padgett, Stratemann, & Co., L.L.P.	State Water Implementation Fund	Basic Financial Statements

## VII. Reporting Suspected Fraud and Abuse

1. Information provided on the Web site that indicates how to report suspected fraud, waste, and abuse involving state resources directly to the State Auditor's Office

The State Auditor's Office is authorized to investigate allegations of fraud and illegal acts affecting state resources. Anyone with information about the misuse or misappropriation of state resources can report this information by phone to 1-800-TX-AUDIT or use the [State Auditor's Fraud Web site](#).

2. Policies provide information on how to report suspected fraud, waste, and abuse involving state funds to the State Auditor.

## Policy Prohibiting Fraud, Waste, Theft and Abuse

### Introduction

The Comptroller's office is committed to preventing fraud, waste, theft and abuse by its employees and any consultant, vendor, contractor, outside agency or person in dealings with the agency or the state of Texas.

### Fraud

*Fraud* is defined as an intentional deception designed to obtain a benefit or advantage, or to cause some benefit that is due another to be denied.

Engaging in fraudulent activity prohibited by federal or state law carries criminal penalties and may subject an individual or entity to civil action. Engaging in activity deemed fraudulent or attempting to do so may also result in termination of employment or the business relationship with the state of Texas.

### Waste, Theft and Abuse

*Waste* is the loss or misuse of state resources that results from deficient practices, system controls or decisions.

*Theft* is the act of taking something from someone unlawfully.

*Abuse* is the intentional, wrongful or improper use of resources or misuse of rank, position or authority that causes the loss of resources.

Waste, theft and abuse that is not illegal but violates agency policy may still result in disciplinary action up to, and including, termination of employment. An employee may also be required to reimburse the Comptroller's office.

There is some overlap in the definitions of fraud, waste, theft and abuse. Based on the circumstances, the agency will determine whether waste, theft, abuse and/or fraud has been attempted or committed and take appropriate action.

## **Fraud Awareness Training**

The Anti-Fraud Coordinator will provide fraud awareness information to the agency and coordinate fraud awareness training. Employees are required to complete fraud awareness training and submit an acknowledgement form each fiscal year.

## **Responsibility to Report Suspected Fraud, Waste, Theft and Abuse**

Each employee is required to report any suspected fraud, theft, waste or abuse to the agency. An employee may make a report to his or her supervisor, directly to the Ethics Officer or through the Network, an outside reporting hotline, at (866) 420-8369.

Employees can report suspected fraud involving state funds to the State Auditor's Office (SAO) by calling (800) TX-AUDIT (892-8348) or by making a report online at <http://sao.fraud.texas.gov>.

The agency will not retaliate against any individual for making a good faith report of suspected fraud, waste, theft or abuse. Any employee who believes he or she has suffered retaliation should immediately contact the Ethics Officer.

## **Role of the Ethics Officer**

The Comptroller's office takes allegations of fraud, waste, theft and abuse seriously and will investigate any allegation made in good faith.

The Ethics Officer receives allegations of suspected fraud, waste, theft and abuse. The Ethics Officer may collect additional information from the employee or other person making the report and will make a preliminary determination whether the allegations should be investigated by the Criminal Investigations Division, Internal Audit, Human Resources, the Ethics Officer, some combination of these, or another appropriate person or entity.

The Ethics Officer provides legal advice to the agency regarding the investigation and findings.

## **Investigation of Allegations of Fraud, Waste, Theft and Abuse**

The agency will take measures to protect the identity of the person making the report of suspected fraud, waste, theft and abuse if requested. The agency may, however, be required by law to disclose the identity of the person making the report or may need to do so in connection with a criminal investigation by an outside entity.

Employees reporting suspected fraud, waste, theft and abuse should not conduct any investigation on their own or demand compliance with the law or agency policy. An investigator assigned to investigate the allegation will contact the employee making the report to obtain additional information and will conduct the investigation on behalf of the agency.

The employee making the report and any employee interviewed in connection with a report of suspected fraud, waste, theft and abuse should keep information about the report, and fact that they were interviewed, confidential. An employee should not discuss facts, suspicions or allegations with anyone in or outside the agency without permission from the investigator.

The investigator will conduct a thorough investigation of the allegations and make written findings. The agency will take action deemed appropriate to address any finding of fraud, waste, theft or abuse by the investigator.

The Anti-Fraud Coordinator will report any finding of fraud to the State Auditor's Office as required.

## **Prohibited Acts**

An employee may be subject to disciplinary action up to, and including, termination of employment for the following:

Committing or attempting to commit fraud, waste, theft or abuse in violation of the law and/or agency policy;

Failing to report suspected fraud, waste, theft or abuse by an agency employee or consultant, vendor, contractor, outside agency or person in dealings with the agency or the state of Texas;

Making a report of fraud, waste, theft or abuse he or she knows to be false;

Interfering with an investigation of fraud, waste, theft or abuse by failing to cooperate with investigators or providing false information;

Retaliating against an employee for reporting suspected fraud, waste, theft or abuse in good faith; and

Failing to maintain the confidential nature of an investigation of suspected fraud, waste, theft or abuse.

## **Authority**

Governor's Executive Order RP 36 (July 12, 2004)

Texas Government Code §321.022