



Summary of Internal Audit Comments

FY2017

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>					

09/30/2016	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	Although Investment Policies are presented to the Advisory Board on an annual basis, review by the Investment Committee is not sufficiently documented.	Currently, review of the Investment Policy is informal and lack signature approval by the C.E.O. and the secretary of the committee.	Investment Policy Statement - Texas Endowment Funds	Absent documentation, there is no evidence of compliance with the policy.	Documentation of the annual review of the Investment Policy Statement by the Investment Committee, including signatures of the Chief Executive Officer and secretary of the Committee, is recommended.
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The annual review of investment policies by the Investment Committee will be formally noted in future meeting minutes. Meeting minutes are signed by the CEO and secretary of the Committee.

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Management Response

10/31/16	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 Incomplete/ Ongoing	As of the audit date, <u>10/31/2016</u> , the following deficiencies in due diligence documentation contained in Code Red were noted: <ul style="list-style-type: none"> Onsite due diligence not documented. (23 funds & 10) managers) Last Site Visit greater than 2 years old. (6 funds & 6 managers). Current Financial not documented. (11 funds & 9 managers) Monthly or quarterly statements not documented. (2 funds & 2 managers). No documentation investment proposal or of new or “add on” investment. (2 funds & 1 manager).	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 October 31, 2016 reporting period, all actual deficiencies have been or will soon be corrected. Review and monitoring processes have been implemented to improve the timeliness of conducting and documenting due diligence procedures. With regard to specific conditions highlighted in the memorandum we share the following update:

- With respect to undocumented onsite due diligence, all but one manager have been corrected. Macquarie is an older vintage fund which is winding down and warrant less oversight. The manager monitoring policy is currently being edited and will address the issue of older vintage funds in wind down mode.*
- With respect to funds not visited within 2 years, two have been corrected (Atalaya and PAREF III), three funds are older vintage and winding down (Standard Life, Caltius and Buchanan). These funds warrant less frequent oversight and are monitored primarily through regular telephone discussions. One manager (LaSalle) was recently visited by the Ops DD team and will be visited again within two weeks by the PM.*
- With respect to current financial statement documentation there were seven of the eleven funds for which we believe the documentation requirement did not apply due to the specific timing of capital calls or closing dates. Three managers (IRM, Janus and Stone Harbor) have been corrected.*
- With respect to monthly or quarterly statements not being documented, one manager provides only annual statements (Amherst) at 9/30 (currently posted) and the position (EEM-ETF) was not purchased until 9/14/16 and was corrected.*
- With respect to no documentation of proposal on one manager, the deficiency has been corrected.*

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12/31/2016	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 Incomplete/ Ongoing	One employee did not take five consecutive days off in accordance with policy.	The employee was absent only three work days. This appears to be due to oversight.	Settlement and Custody Services Dept. Policy III. C.	Failure to comply with management's directives as stated in policy.	<p>Management agrees appropriate approval to note an exception to the policy due to the employee's long term absence should have been documented in the employee file.</p> <p>A monthly review for the period of December 2015 has been created and placed in the employee's file to document that the review was not discussed with the employee in January 2016 due to the employee's long term absence.</p> <p>The Settlement & Custody Services Dept. Policy is being revised to document proper procedures to document exceptions and enhance the review process.</p>
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Management agrees with the finding that one S&CS employee did not take five consecutive days off in accordance with policy, and that written approval had not been sought to allow an exception to the policy in this instance (which was due to the employee's heavy involvement in the TTSTC SCD Accounting System Implementation Project).

To prevent this from happening in the future, S&CS management will perform a review of each employee's mandatory vacation status 90 days before the end of each fiscal year.

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12/31/2016	BidTex	<p>To determine:</p> <ol style="list-style-type: none"> 1. Depositories are approved and approved deposit limits are less than or equal to two times the bank's capital and surplus. 2. Interest rates received at auction were in excess of the minimum floor rate. 3. Reconcilements are accurately documented. 4. Collateral for deposits is sufficient. 5. Accuracy and timeliness of the reconciliation of incoming wire transfers. 6. Interest on deposits is received in an accurate and timely manner. 7. Compliance by depositories with minimum capital standards. 8. Depository banks have a CRA Rating of Satisfactory or greater. 9. Verification that transactions posted in a timely and accurate manner. 10. Compliance with the State Depository Handbook. 			
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01 Substantially Implemented.	My review determined that compliance by the depository banks is inconsistent and many times they fail to send a copy of the quarterly bank statement, as required by the Depository Handbook.	<p>Depository banks frequently send an email detailing the balance, interest rate, and maturity date.</p> <p>This is a repeat of the prior audit's comment.</p> <p>Further inquiry revealed that recommendations to bar a financial institution from the next BidTX auction, after two email reminders, have not been made.</p>	Comptroller's Depository Handbook.	Noncompliance with policy increases the possibility of inaccurate or deceptive information and increases the risk of monetary loss.	Compliance with policy as stated in the Depository Handbook is recommended
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Management response to the prior audit comment was provided on 7/13/16. The state depositories were notified of the requirement on 8/30/16 prior to the next quarter-end. All depositories holding BidTX deposits as of 9/30/16 provided some form of deposit confirmation or statement and all responses have been documented. The 12/31/16 statement reconciliation is in progress. Approximately 35% of the depositories are unable to produce a system-generated statement. The Trust Company will provide a template to be completed on the financial institution's letterhead and signed by two officers verifying the deposit information in lieu of a statement.

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Management Response

01/31/2017	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 Incomplete/ Ongoing	A review of completed travel vouchers noted that travel vouchers are not filed in a timely manner.	Five vouchers took as long as 34, 43, and 61 days to file.	<i>Industry best practice.</i>	Taking excessive time to file travel vouchers increases the possibility that supporting documentation will be lost and the risk of failure to file for reimbursement.	Travel vouchers should be filed in a timely manner especially those that include travel advances.
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Management will remind staff of the importance of compliance with Trust Company Travel Policy. Management recognizes that timeliness is appropriate when filing claims and will notify all travelers at the Trust Company that their receipts should be submitted within 30 days of returning from a trip. CPA has no mandatory timeline by which travelers must submit their receipts for reimbursement.

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Management Response

02/28/2017	Accounting and Trust Operations	<p>To determine the extent to which:</p> <ul style="list-style-type: none"> ▪ Assets transferred to the department are properly recorded and controlled. ▪ Records are sufficient to permit an accurate accounting. ▪ Internal control procedures are adequate. ▪ 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. ▪ Proper fees have been collected and recorded in a timely fashion. 			
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01 Incomplete/ Ongoing	A review of purchases noted one check issued in excess of \$5,000.00 lacked a second signature.	This appears to be the result of oversight.	Texas Trust Company policy.	In the absence of a second signature evidencing additional review for large checks, there is an increased risk of loss due to error or misappropriation.	Second party review of checks in excess of the limit by someone outside the purchasing process is recommended.
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Management agrees with the recommendation and that compliance with Trust Company policy is essential. A second person review will be added to the check issuance process as a requirement before checks may be distributed. It will require that signed checks be sent to the Financial Accounting and Reporting Department. A report from the MIP accounting system will be run daily to identify checks over \$5,000. Checks will be reviewed for proper signature and the report will be signed by the reviewer. The report and the checks will then be returned to Trust Services for distribution.

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Management Response

04/30/2017	Unclaimed Property	<p>To determine the extent to which:</p> <ul style="list-style-type: none"> ▪ Assets transferred to and remitted by the department are properly recorded and controlled. ▪ Records are sufficient to permit an accurate accounting. ▪ Internal control procedures are adequate. ▪ Duties of the department, whether established by law or contract, are properly executed in a timely manner. 			
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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.	A recent sale of unclaimed property securities was not completely documented, including signed authorization for the sale.	A new procedure for the sale of unclaimed property securities should be drafted and implemented as soon as the new system installation is complete. In addition, a memo detailing the process for the recent sale should be documented and signed by the C.E.O. of the Trust Company.
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Management agrees that a new procedure for the sale of unclaimed property securities should be drafted as soon as the new system installation is complete. Processes are under review and new procedures will be developed as processes are optimized. An email memo from the CEO to the Deputy CFO explaining circumstances and justification of the process followed for the referenced unclaimed property sale has been added to the files.

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06/30/2017	Systems and Support – Sim Corp	The purpose of this review was to determine that an effective control environment has been implemented to ensure the achievement of the Sim Corp Phase 1 objectives.			
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Incomplete/Ongoing.	<p>A review of the Sim Corp Phase I project noted the following deficiencies:</p> <ul style="list-style-type: none"> Monitoring to ensure contract completion had not been assigned to a responsible employee and documented. A formal Acceptance Certificate, signed off by the vendor and the customer, was not completed at the end of phase I of the Sim Corp project. 	<p>Although issues have been tracked through the steering committee, contract monitoring had not been centralized and documented. Formal completion of Sim Corp Phase I was not documented due to outstanding issues.</p>	<p>Industry best practice is to:</p> <ul style="list-style-type: none"> Assign responsibility for and fully document contract monitoring. Document completion of a project by with a signed Acceptance Certificate confirming that all deliverables were produced to acceptable criteria within the agreed time and cost. 	<p>In the absence of documented contract monitoring and an Acceptance Certificate, there is an increased risk of incomplete deliverables and/or cost over runs.</p>	<p>Responsibility for contract monitoring and management should be assigned, implemented and documented.</p> <p>Completion of a signed Acceptance certificate for the entire project at the end of phase 2 is recommended.</p>
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Management agrees that contract monitoring is essential and notes that the T.T.S.T.C. Sim Corp Project Manager did monitor the contract and the Statement of Work (SOW). However, project deliverables are not fully documented in the contract, rather, they are reflected in the SOW and the detailed requirement and configuration documents. Those deliverables were tracked at a more detailed level though rigorous documentation review and testing of the delivered configuration, thereby ensuring the higher level deliverables were met. That being said, we agree that a more formal contract review and documentation process should be developed and to that that end we have begun to develop a master template for tying the requirements, to design, to configuration, to test cases. Going forward both the Project Manager, and the Deputy General Counsel, will be tasked with formal tracking of the contract.

Management agrees that we should have a signed acknowledgement at the end of each phase of the Sim Corp project. Although Phase I is predominantly delivered, there is still a component that is in development and when it is completed we will sign off on Phase I. Of note, QED still remains our book of record as we continue to run Sim Corp Dimensions in parallel with QED.