



Summary of Internal Audit Comments

FY2016

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

09/30/2015	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 Fully Implemented	Employees having investment related duties are required to provide a copy of their broker statements on a quarterly basis to the Compliance Officer or notification that there were no trading activities. A review of this activity for the previous four quarters noted that the employee failed to provide this documentation in eleven instances.	This appears to be the result of oversight by the employee in sending the documentation and by the Compliance Officer in identifying the discrepancy.	TTSTC Ethics Policy.	Noncompliance with policy.	Investment employees should be required to provide the required documentation within thirty days of the Compliance Officer's request. The Compliance officer should follow-up and report any failure to respond to the Investment Committee.
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Management agrees that employee brokerage statements should be provided in a timely manner. The Compliance Officer will monitor the responses and report to management for appropriate action staff that does not respond in a timely manner. All employees have complied for each quarter to date. No restricted trading violations have occurred.

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Management Response

12/31/2015	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>12/31/15</u> , documentation supporting due diligence was not documented in Code Red: <ul style="list-style-type: none"> Onsite due diligence not documented. (27 managers). Current Financial Statement not documented (6 funds). Monthly or quarterly statements not documented. (6 funds). 	These appear to be the result of error or oversight.	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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Maintaining documentation supporting due diligence is critical to the fiduciary process. The Trust Company invested in an Investment Research and Management System (“Code Red”) to meet that obligation. Documentation deficiencies cited in this condition are a result of inconsistent use of the system and have since been corrected. Ongoing training is occurring and procedures have been developed to address the issue. Diligence had been completed and documented but not properly filed in Code Red. The Code Red administrator has developed a standardized filing methodology and is establishing an automated tickler follow-up notification routine to ensure that documentation required of portfolio managers remains current. Additional efforts to automate documentation tracking and monitoring are ongoing.

With the exception of two hedge fund visits, all noted deficiencies have been filled and the remaining two will be handled within this month.

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<i>Management Response</i>					

02/29/2016	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 Substantially Implemented	Performance reviews performed for a new employee found that four of the six monthly reviews were performed for the period of August 3, 2015 through December 1, 2015. A six month review was performed in February 2016.	Due to the absence of the employee in January 2016, a decision was made not to perform any more of the monthly reviews. As a result only four of the six monthly reviews were performed for the period of August 3, 2015 through December 1, 2015.	Settlement and Custody Services Dept. Policy states: <i>Newly hired full-time and temporary employees will receive monthly reviews from their supervisor for the first six months of employment. This stringent supervision will help ensure close monitoring of new full-time and temporary employees working in the sensitive area of Settlement & Custody Services.</i>	Non-compliance with management's directives as documented in policy.	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. 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. The Settlement & Custody Services Dept. Policy is being revised to document proper procedures to document exceptions and enhance the review process.
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*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.
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.
The Settlement & Custody Services Dept. Policy is being revised to document proper procedures to document exceptions and enhance the review process.*

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Management Response

03/31/2016	Administrative Operations	<p>To determine that:</p> <ul style="list-style-type: none"> • Policies, procedures, and risk limits are adequate. • Internal controls are sufficient and effective. • Independent review functions are satisfactory. • Information and communication systems are adequate and accurate. 			
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01 Fully Implemented	<p>A review of travel expenses since 09/01/15 noted the following documentation deficiencies:</p> <ul style="list-style-type: none"> • Receipt for Taxi(s) not documented (5). • Tip charged and reimbursed (1). • Approval for out of state travel not documented (1). • Travel Voucher signed and approved before service dates (2). 	These appear to be the result of error or oversight.	<p><i>Travel Voucher Filing Requirement Procedure. CPA Employee Handbook. Chapter 09: Moving and Travel Expenses. Section: How to Complete a Travel Voucher. Fares. Public Transportation, (<u>attach receipts</u>)</i></p>	Non-compliance with policy.	Travel vouchers should be properly documented, approved and supported by valid receipts in accordance with policy. Tips paid should not be submitted for reimbursement.
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Management agrees that compliance with policy is important, and will retrain on completion of travel vouchers and related policy. A second-party review of vouchers will be conducted for a finite period of time to reemphasize importance of accuracy.

The following comments are specific to bulleted audit comments:

- *Receipt for Taxi(s) not documented (5). The receipts in question were for transportation provided by Uber and Lyft. They were being held in a file separate from taxi receipts as there was question by the travel coordinator at the time whether they were statutorily eligible for reimbursement. The issue was subsequently resolved in the affirmative, but the receipts were not transferred to accounting. They have been provided to the auditor for review. In the future, all receipts will be submitted to accounting.*
- *Approval for out of state travel not documented (1). The trip was documented; however, one memo documented travel for two employees. That memo was retained in only one of the employee files and was simply not copied and placed in the other file. It has since been placed in the file.*

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Management Response

03/31/2016	BidTex	<p>To determine:</p> <ol style="list-style-type: none"> 1. Deposits are properly recorded, classified and reported. 2. Deposits are deposited timely in compliance with applicable laws. 3. Deposits are performed in accordance with established written policies and procedures. 4. Adequate controls exist to safeguard funds from loss, errors and irregularities. 5. Controls are adequate to investigate and report shortages/overages in a timely manner and corrective action is taken immediately. 6. Interest income on state funds is maximized and collected in a timely and accurate manner. 7. Compliance with applicable laws, rules and regulations. 			
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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.	Depository banks frequently send an email detailing the balance, interest rate, and maturity date.	Comptroller’s Depository Handbook. “Each state depository holding BidTX or Open Time deposits must furnish the Comptroller quarterly statements of principal balances, interest rates, and maturity dates of all BidTX or Open Time deposits with that Financial Institution. “	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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The Treasury Operations Division of CPA receives the depository bank statements and has agreed to forward the statements to the Trust Company. If a depository does not send a bank statement, the Trust Company will send an email reminder and reference the reporting requirement in the Handbook. If the depository does not comply after two email requests, the Trust Company will recommend to CPA that the depository is barred from the next BidTX auction.

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04/29/2016	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 Fully Implemented	<p>As of this audit date, April 29, 2016, two policies had not been updated in over seven years:</p> <ul style="list-style-type: none"> • Customer Complaint Policy • Treasury Pool Allocation P&P for Realized Gains/Losses Incurred Upon the Sale or Disposition of Securities 	This appears to be the result of oversight.	<p>This comment was made on a previous audit and management stated:</p> <p><i>Management agrees that policies should be reviewed periodically and updated as necessary. Responsibility to review, establish a schedule and process for reviewing Trust Company policies has been assigned to the legal division.</i></p>	In the absence of current policies, management has less assurance of compliance with its most current directives.	Policies and procedures should be periodically reviewed and updated.
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Although the Customer Complaint Policy had not been updated since 2007, it was reviewed during the annual review process in Spring of 2016. The final draft was sent for posting 8/8/16. The current policy was posted on 09/28/16.

The Treasury Pool Allocation Policy is still in effect and reviewed during the 2016 Policy Review cycle. No changes were needed. The Compliance Officer was notified of the review on 6/22/16 as part of the annual review cycle.

Oversight of Policy and Procedure process will be enhanced to ensure all policies and procedures are updated timely and polices with no changes have the most current review date.

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Management Response

04/29/2016	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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02 Substantially Implemented	It was observed on several occasions that RSA Security Tokens were left unattended on the desktop.	This appears to be the result of employee oversight.	COBIT (Control Objectives for Information and Related Technologies) 5 Processes Applying to Cybersecurity.	Security provided by the RSA Token is rendered ineffective and the risk of unauthorized access is significantly increased.	It is recommended that RSA Security Tokens be kept on the employee's person or secured in a locked drawer with the key on their person. Employees who are members of the disaster recovery team should take the tokens with them when they leave work and secure them in the same way.
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Supervisors have been reminded to ensure that employees keep their RSA Security tokens secure at all times. Employees have also been reminded to keep the tokens secure. If the problem persists, written warnings will be issued to the employees.

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Management Response

06/30/2016	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.	Movement of Unclaimed Property Securities is not tracked in a timely and effective manner by the Q2 Investment Accounting system.	Location tracking is not easily accomplished in the Q2 Investment Accounting system. Security movement requires an entry removing a position from the system followed by an entry to create a new position, leaving no clear historical audit trail. This results in an inherent delay between movement of a security and update of the system.	Industry best practice.	This can result in an increased risk of discrepancies in security listings for the vault and safe.	Implementation of the newly acquired automated system, to track unclaimed property securities is recommended.
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Management agrees that use of the Q2 Investment Accounting system to track Unclaimed Property holdings is very cumbersome. A new investment accounting system has been purchased and is being implemented.

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Management Response

07/31/2016	Systems and Support	<p>To determine that:</p> <ul style="list-style-type: none"> • 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. • 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. • 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. • 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. • 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. • 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. 			
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Government Code Section 552.136 provides that information is exempted from public disclosure under the Public Information Act if it relates to computer network security or to the design, operation or defense of a computer network. Details of issues, findings and recommendations have been privately communicated to management in a separate report.