



Summary of Internal Audit Comments

FY2019

| 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

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| 09/01/2018 | 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 | Investment policies are not consistently reviewed on an annual basis. | Portfolio Hedging and Overlays Policy has not been reviewed since April 2017 or revised since July 2016. | Best industry practice. | Reliance on inaccurate or erroneous information. | Investment policies should be reviewed on an annual basis and updated when necessary |
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The Portfolio and Overlays Policy was reviewed thoroughly during 2018 and no changes were recommended.

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Management Response

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| 09/30/2018 | 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, 09/30/18, the following deficiencies in due diligence documentation contained in Code Red were noted: <ul style="list-style-type: none"> Last Site Visit greater than 2 years old. (16 funds). Current financial statement not documented. (18 funds) Monthly or quarterly statements not documented. (4 funds). | 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, 2018 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

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| 12/31/2018 | 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 reconcilement 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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| | There were no findings identified in this audit. | | | | |
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Management Response

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| 01/31/2019 | 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. | Currently there is no follow up process for repeated failed attempts to access the wire room using an unauthorized key card | A procedure has not been drafted, documented, and implemented. | Industry best practice. | Failure to detect ongoing access attempts to the wire room increases the risk of financial loss as a result of equipment destruction or misuse. | We recommend that a follow up procedure for failed attempts to access the wire room using an unauthorized key card be drafted, documented, and implemented. In addition, a key card report should be requested that shows deactivation of the cards for employees leaving the wire room or the company. |
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Management recognizes that unauthorized access is not acceptable; hence, the compliance attorney monitors the key card access roster and access history from DPS monthly. A procedure will be established whereby the compliance attorney will verify monthly review of the key card access roster and access history and any follow up action taken via email to the COO. All money movement access requires dual factor authentication; and, the PayPlus server no longer resides in the wire room. Additionally, all wire room laptops are taken home each night, so management believes the risk posed by unauthorized access is mitigated.

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Management Response

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| 02/28/2019 | 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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Management Response

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| 03/31/2019 | 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 | Periodic review by executive management of the Capital Reserves Policy and its requirements is not performed and documented in a timely manner. | As of the audit date, the Capital Reserves Policy posted on the intranet was dated 09/01/17. | The Capital Reserves Requirements Policy will be reviewed periodically by the Trust Company executive management to determine if any adjustments will be needed. | Noncompliance with policy and an increased risk of an inaccurate capital reserve. | We recommend that the capital reserve be reviewed annually by executive management and modified as necessary. An updated Capital Reserve Policy was completed during audit field work. |
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Management agrees periodic review of the capital reserves requirement is necessary to ensure an adequate level of reserves are maintained. The reserve requirement has been calculated for FY 2019 and the policy has been updated.

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| <i>Management Response</i> | | | | | |

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| 05/31/18 | 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 physical Securities is not tracked in a timely and effective manner by the SCD system. thirteen differences were noted in the inventory of the safe and fifteen discrepancies were noted in the inventory of the vault. | These appear to be caused by system discrepancies in the SCD system that was recently brought online. | Industry best practice. | This can result in an increased risk of discrepancies and loss of physical securities. | Efforts should be continued to correct the newly acquired automated system and its tracking of unclaimed property securities. |
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Management generally concurs with the findings presented in the audit memorandum concerning the need for physical securities to be tracked in a timely and effective manner by the SCD system. Changes have recently been implemented in SCD to improve the reporting of holdings of securities in certificated form which will improve the reconciliation process. Management will continue focusing on ensuring that appropriate processes and procedures are in place to effect the accurate and timely reporting of certificated securities.

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| 02 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.

Because no sales were executed on securities held for the Unclaimed Property Program since the time management responded to the prior year's audit comment, resources were allocated to other tasks and the drafting of the new procedure was postponed. The procedure update is currently under way and it will be submitted to the Policies & Procedure Coordinator by January 31, 2020.

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| 04/30/18 | 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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Audit Delayed to FY 2020 Due to System Conversion.