



Summary of Internal Audit Comments

FY2020

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

09/30/2019	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 Complete	Investment policies are not consistently reviewed on an annual basis.	<p>Three Investment policies had not been reviewed or revised in more than a year:</p> <ul style="list-style-type: none"> • Portfolio Hedging and Overlays Policy. (Reviewed 04/01/17 Revised 07/01/16). • Proxy Voting Policy. (Reviewed 05/01/17 Revised 05/01/17). <p>Texas Economic Stabilization Investment Fund (Reviewed 10/01/16 Revised 08/01/17). The Comptroller's Investment Policy is incorrectly listed as last reviewed on 08/01/17. It should also be closely reviewed since it has had no revisions since 12/01/15.</p>	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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Management agrees with the comment and plans to circulate the Proxy Voting Policy for review no later than February 29th, 2020. With regards to the Portfolio Hedging and Overlays Policy, Management has been in the process of updating this policy. Management plans to circulate and approve the revised Portfolio Hedging and Overlays Policy no later than April 30th, 2020.

Management agrees that the "reviewed" date posted for the Comptroller's Investment Policy on the Intranet is incorrect. However, the Comptroller's Investment Policy was reviewed annually, per policy, at the August 16th, 2018 Board Meeting and the July 17th, 2019 Board Meetings. At both meetings, no changes were recommended. To be clear, the Intranet has now been updated to accurately reflect the reviewed date.

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Management Response

12/31/2019	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	<p>As of the audit date, 12/31/19, the following deficiencies in due diligence documentation contained in Code Red were noted:</p> <ul style="list-style-type: none"> Last Site Visit not supported by documentation. (39 funds) Last Site Visit greater than 2 years old. (49 funds). Current Financial not documented. (19 funds). Monthly or quarterly statements not documented. (14 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, 2019 reporting period, all actual deficiencies have been corrected. Review and monitoring processes are being implemented to improve the timeliness of conducting and documenting due diligence procedures, including moving to a system of quarterly reviews on due diligence

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Management Response

03/31/20	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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	There were no findings identified in this audit.				
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Management Response

04/30/20	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	<p>As of the audit date, April 30, 2020, reconcilements had only been completed through September and October 2019:</p> <p>Fifteen reconcilements were incomplete for the period of 09/2019 - April 2020. Nineteen reconcilements were incomplete for the period of 11/2019 - April 2020.</p>	<p>A new investment accounting system (SCD) went live in October. Due to problems with the system and staff shortages reconcilements fell behind. This was further exasperated by the pandemic.</p>	Policy and industry best practice.	<p>Errors or misappropriations may go undetected for a long period of time and reduce the chances for recovery. Reconcilement of Cash Accounts were kept current. During audit field work most of the reconcilements completed current up to the audit date of April 30, 2020.</p>	Reconcilements should be brought current as soon as possible.
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Management agrees that certain reconciliations were not current as of start of audit fieldwork. In fiscal year 2020, a new investment accounting system was implemented that included transition of daily cash and holding reconciliations with external custodians to an automated system-based process. As such, prior Excel paper-based reconciliations were phased out for these high-risk processes. However, various other reconciliations for other accounts such as Accounts Payable and Accounts Receivable, fell behind as a result of staff shortages including retirements and the demands of switching to remote work. Since the start of fieldwork, significant progress has been made to bring reconcilements current with the addition of a new team staff member and new system efficiencies. Management plans to continue to leverage the system to ensure all critical process are maintained current and reconciled timely.

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Management Response

05/31/2020	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 Incomplete/ Ongoing	Confirmation of BidTex funds on deposit with the banks were not performed in fiscal year 2020. September 2019 BidTex confirmations are currently in progress.	<p>A new investment accounting system (SCD) went live in October. Due to problems with the system and staff shortages confirmations fell behind. This was further exasperated by the pandemic.</p> <p>After going live in September 2019, the new investment accounting system (SCD) started experiencing several issues. Therefore, a lot of staff time has been devoted to addressing these issues. In addition, staff had to resume running parallel with the legacy system (Q2). Since staff's focus has been on these high priority items, Bid Tex confirmations have fallen behind. Covid-19 has also further exacerbated this condition.</p>	Policy and Industry Best Practice.	Increased possibility of inaccurate or deceptive information, and monetary loss.	Bidtex quarterly confirmation of bank deposits should be brought current as soon as possible.
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Management agrees that the confirmation reconciliation of Bid Tex funds on deposit with the banks was not completed in fiscal year 2020. This was primarily due to staff resources required to implement a new investment accounting system at the start of the fiscal year. In addition, staff had to resume running parallel with the legacy system (Q2) due to additional configuration and testing that was incomplete in the new system. These staffing constraints along with the added demands of switching to remote work has also added to this reconciliation falling behind. Because banks are required to submit their interest payments on deposit on a scheduled basis, the risk of monetary loss and inaccurate information for this program is somewhat mitigated. Since the start of fieldwork, progress has been made on bringing the confirmation reconciliation up to date and staff will continue to work towards keeping it current and reconciled in a timely manner.

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Management Response

07/31/2020	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	As of the audit date, July 31, 2020, return of laptop computers, assigned to employees leaving the company, were not adequately documented.	Industry Best Practice.	In the absence of documentation, management lacks adequate assurance that computers, possibly containing confidential information, have been returned.	Return of laptop computers should be documented and archived including the departing and receiving employee's signatures.	Travel vouchers that require changes should be reprinted and approved.
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Management agrees that proper documentation is best practice. Mohamed Elkordy left employment on February 21, 2019 and indicated to the COO that he had dropped his laptop off in IT; hence, the COO did not note collection of the laptop, an omission. An email from IT indicating the laptop had been collected should have been attached to the Employee Checklist.

In 2018 the procedure for collecting IT equipment and peripherals and recording said collection on the Employee Checklist was changed in an effort to itemize everything on a single list to simplify audit of equipment collection tied to an employee's checkout. We have found, however, that quite often an employee will walk down to the third floor and drop off their equipment and tokens before meeting with the COO to hand over badges and keys. Based on this audit comment, we have decided to go back to the original system of having IT collect all IT hardware, headphones, monitors and tokens, then have the Security Officer send an email to the COO acknowledging collection. The COO will attach this email to the Employee Checklist going forward, and not take receipt of said equipment.