I. Compliance with Texas Government Code 2102.

II. Internal Audit Plan for Fiscal Year 2019.

III. Consulting Services and Non-audit Services Completed.

IV. External Quality Assurance Review (Peer Review).

V. Internal Audit Plan for Fiscal Year 2020.

VI. External Audit Services Procured in Fiscal Year 2019.

VII. Reporting Suspected Fraud and Abuse.
I. Compliance with Texas Government Code 2102

An approved fiscal year 2019 audit plan (as provided by Texas Government Code, Section 2102.008) as a part of the fiscal year 2019 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 2019 audit plan or annual report will be posted on the TTSTC web site.
II. Internal Audit Plan for Fiscal Year 2019

Internal Audit Plan
Fiscal Year 2019

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.

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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

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- Certified Internal Auditor (CIA).
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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)
The fiscal year 2019 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,
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## Internal Audit Plan Appendix

<table>
<thead>
<tr>
<th>Audit Area</th>
<th>Occurrence</th>
<th>Planned Commencement</th>
<th>Risk Rating</th>
<th>Audit Hours</th>
<th>% of Total Project</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Custody Settlement</td>
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<td>12.20</td>
<td>160</td>
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</tr>
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<td>10.40</td>
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III. Consulting Engagements and Non-audit Services Completed.

None.
IV. External Quality Assurance Review (Peer Review)

REPORT ON THE
EXTERNAL QUALITY ASSESSMENT REVIEW
OF THE

TEXAS TREASURY SAFEKEEPING TRUST COMPANY
INTERNAL AUDIT FUNCTION

TEXAS TRUST
TEXAS TREASURY SAFEKEEPING TRUST COMPANY

September 2018

PERFORMED BY
David J. MacCabe, CIA, CGAP, CRMA, MPA
Internal Audit Consultant
David J. MacCabe, CIA, CGAP, MPA  
Internal Audit Consultant  
2708 Kerrybrook Lane  
Austin, TX 78757-6914  
(512)-567-1593

September 28, 2018

Mr. Michael Owen, CIA, CISA, CIDA, CFSA, CBA  
Director of Internal Audit  
Texas Treasury Safekeeping Trust Company  
208 10th Street, 4th Floor  
Austin, TX 78701

Re: External Quality Assessment Review

Dear Mr. Owen:

Attached for your information is the final report of the External Quality Assessment Review of the Internal Audit function of the Texas Treasury Safekeeping Trust Company (TTSTC).

Congratulations to you on a conscientious effort in preparing for this validation peer review. In my opinion, the TTSTC Internal Audit function generally conforms with the International Standards for the Professional Practice of Internal Auditing, Government Auditing Standards and the IIA Code of Ethics.

"Generally conforms" means that the TTSTC Internal Audit function has policies, procedures, and practices in place to comply with the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the Internal Audit function. This opinion is the highest of three possible ratings.

Thank you for the courtesy and assistance provided by you and TTSTC management and staff members during this review. Please let me know if I can provide further information.

Sincerely,

David J. MacCabe, CIA, CGAP, CRMA, MPA  
Internal Audit Consultant  
Independent Validator
V. Internal Audit Plan for Fiscal Year 2020

Internal Audit Plan
Fiscal Year 2020

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<th>As of Date</th>
<th>Audit Firm</th>
<th>Auditee</th>
<th>Type of Audit</th>
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<td>9/30/2018</td>
<td>Padgett, Stratemann, &amp; Co., L.L.P.</td>
<td>State Water Implementation Fund</td>
<td>Basic Financial Statements</td>
</tr>
<tr>
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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](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