



333 Bush Street  
 San Francisco, CA 94104  
 (415) 263-5400  
 www.statefundca.com

Date: November 1, 2013

**TO: MEMBERS, INVESTMENT COMMITTEE**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 5: Report on Investment Audits
<b>II. NAME AND PROGRAM:</b>	Dante Robinson, Internal Affairs and Peter Guastamachio, Treasury & Investments
<b>III. ACTIVITY:</b>	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<input type="checkbox"/> Standard/Required Item <input checked="" type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

**V. EXECUTIVE SUMMARY:**

The 2012 Investments Program was audited by the Model Audit Rule (MAR) Unit in the Financial Reporting & Systems Department; KPMG; and Internal Audit/PWC. Audit results from the three entities were reviewed by management and all findings were remediated and recommendations were implemented.

**VI. ANALYSIS:**

1) Model Audit Rule (MAR) Testing and Remediation – The MAR audit reviewed and tested the controls established for the Fixed Income investment sales authorization by the CIO; the three-way reconciliation of the SCO, STO, and Clearwater data; Management’s review of the short-term and long-term investment portfolio results at the Treasury & Investment Committee meetings; investment purchase authorization from authorized personnel; the cash disbursement bank account reconciliation between the General Ledger and the Banking System; the Cash Receipt bank account reconciliation between the General Ledger and the bank statement; the CIO review process for all checks \$250,000 and above; the wire transfer process for bond settlements and the segregation of duties through Bank of America’s online Cash Pro application; the wire transfer review and approval process for operating expenses initiated by staff outside of the Treasury area; the SSAE 16 review process; user access and entitlements for the Union Bank online application for cash movement; user access and entitlements for BNY Mellon cash movement; user access and entitlements for the Bank of America Cash Pro online application; user access and entitlements for the Clearwater online application;

premium reconciliation within the Image RPS system at the Pleasanton Lockbox and the IT Data Control reconciliation for the Bank of America Lockbox; and the investment valuation for Other Than Temporary Impairment (OTTI) status. There were no major findings and three minor findings were remediated.

2a) Internal Audit – The co-sourced internal audit executed by PWC reviewed and tested the controls established for the review and impact analysis of all SSAE 16 reports; Clearwater’s pricing method and management’s validation of the appropriateness of the reporting obtained from Clearwater for the annual financial statements; documentation of the daily review of rating changes; documentation of regular weekly and/or monthly meetings with the Portfolio Managers and documentation of canceled meetings; documentation of the Equity Investment process; review of the Clearwater month-end compliance reports and reconciliation of any discrepancies with the Portfolio Manager reports. There were no major findings and the seven minor findings/recommendation were remediated.

2b) Internal Audit’s Treasury Audit – The audit’s objective was to assess management efficiency and operational effectiveness in the areas of cash management; cash forecasting; banking operations; Payment Card Industry (PCI) oversight; management of the Suspense Account; control of the exception checks process; management of access to restricted areas; security of check payments received in the Cash Receipts area; and documentation of the Daily Cash Receipts process. There were five minor findings and all were remediated.

3) KPMG Audit – The KPMG auditors reviewed an electronic listing of all investment transactions for the 2012 fiscal year and selected sample purchase and sale tickets for testing. Of that sample population, there were 11 issues that required additional documentation and information. All issues were clarified and cleared.

**VII. RECOMMENDATION:** Informational only