



A Report on

**Agencies', Higher Education Institutions',
and Community Colleges' Compliance with
Public Investment Reporting Requirements**

May 2016

Report No. 16-027



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Overall Conclusion

The majority of agencies, higher education institutions, and community colleges¹ subject to the Public Funds Investment Act (Act) submitted compliance audit reports that indicated they fully or substantially complied with the Act in fiscal year 2015. Those entities had approximately \$70.6 billion² in investment holdings as of August 31, 2015. Therefore, it is important that they comply with statutes and investment reporting requirements designed to help the **Legislature, the entities' boards, and the public** ensure that the entities manage and disclose their investments appropriately by providing transparency to stakeholders.

Additionally, all higher education institutions and community colleges fully complied with higher education investment reporting requirements in Rider 5, page III-241, General Appropriations Act (83rd Legislature), and **prescribed by the State Auditor's Office** at <http://www.sao.texas.gov/Resources/IntAud/pubfunds.html>.

It is important to note that the entities self-reported the information in this **report, and the State Auditor's Office did not** independently verify that information.

Background Information

The Legislature enacted the Public Funds Investment Act (Act) in 1995 to improve the transparency and management of investments by state agencies, higher education institutions, community colleges, and local governments. The Act requires certain state agencies, higher education institutions, and community colleges to implement controls in the form of investment policies, contracting, training, reporting, and reviewing, as well as to obtain audits of those controls at least once every two years.

In addition, Rider 5, page III-241, General Appropriations Act (83rd Legislature), requires higher education institutions and community colleges to file an annual investment report prepared in a method **prescribed by the State Auditor's Office**. The **State Auditor's Office** prescribed that method and additional reporting requirements at <http://www.sao.texas.gov/Resources/IntAud/pubfunds.html>. Higher education institutions and community colleges are also required to publish quarterly investment reports on their Web sites after each quarter.

Sources: The Act, the General Appropriations Act (83rd **Legislature**), and the **State Auditor's Office** Web site.

¹ For the purposes of this report, if a community college is within a community college district (with multiple community colleges), the phrase "community college" refers to the community college district.

² The sources for that amount are the annual investment reports and annual financial reports prepared by the agencies, higher education institutions, and community colleges subject to the Act. That amount is based on entity self-reported information, and auditors did not perform tests or other procedures to verify the accuracy of the reported amounts. That amount is the sum of agency, higher education institution, and community college investments, including investments of higher education institutions that are not subject to the Act, but it excludes those entities' investments in the Treasury Safekeeping Trust Company (TexPool) and Treasury Safekeeping Trust Company (TexPool Prime) to prevent counting those holdings twice.

The following describes compliance by the type of entity for fiscal year 2015:

- **Agencies.** Twelve of the 14 agencies subject to the Act submitted compliance audit reports that indicated they fully or substantially complied with the Act. The Water Development Board and the Texas Military Department submitted compliance audit reports that indicated they minimally complied with the Act.
- **Higher Education Institutions.**
 - **Compliance with the Act.** All of the 17 higher education institutions subject to the Act submitted compliance audit reports that indicated they fully or substantially complied with the Act.
 - **Compliance with Higher Education Investment Reporting Requirements.** All of the 17 higher education institutions fully complied with the higher education investment reporting requirements in Rider 5, page III-241, General Appropriations Act (83th Legislature), and as prescribed by the State Auditor's Office.
- **Community Colleges.**
 - **Compliance with the Act.** Forty-nine of the 50 community colleges subject to the Act submitted compliance audit reports that indicated they fully or substantially complied with the Act. Clarendon College submitted a compliance audit report that indicated it minimally complied with the Act.
 - **Compliance with Higher Education Investment Reporting Requirements.** All of the 50 community colleges fully complied with the higher education investment reporting requirements in Rider 5, page III-241, General Appropriations Act (83rd Legislature) and as prescribed by the State Auditor's Office.
- **University systems not subject to the Act but still subject to the higher education investment reporting requirements.** The University of Texas System, Texas A&M University System, Texas Tech University System, and University of Houston System are not subject to the Act but are still subject to the higher education investment reporting requirements. Those four university systems fully complied with the higher education investment reporting requirements.

Some entities did not submit a compliance audit report by the Act's statutorily required due date of January 1, 2016. In addition, a significant number of higher education institutions and community colleges did not fully comply with the higher education investment reporting requirements by the statutory due date of December 31, 2015. However, after auditors contacted those entities and extended the due date for reporting to auditors until March 25, 2016, most of those entities either submitted the required information to the State Auditor's Office or posted it on their Web sites.

Project Objectives and Scope

The objectives of this project were to:

- Determine whether state agencies and most higher education institutions complied with the Act requirement to submit a compliance audit report to the **State Auditor's Office by January 1, 2016.**
- Determine whether higher education institutions complied with Special Provisions Relating Only to State Agencies of Higher Education, Rider 5, page III-241, General Appropriations Act (83rd Legislature), and reporting requirements as prescribed by the **State Auditor's Office** on its Web site at <http://www.sao.texas.gov/Resources/IntAud/pubfunds.html>.

The scope of this project covered investment disclosures with due dates of December 31, 2015, and compliance audit reports with due dates of January 1, 2016. The compliance audit reports received were dated from May 2014 through April 2016. State auditors performed reviews of the reports from January 2016 through May 2016.

Contents

Detailed Results

Chapter 1 Most Agencies Submitted Compliance Audit Reports That Indicated They Fully or Substantially Complied with the Act	1
Chapter 2 All Higher Education Institutions Submitted Compliance Audit Reports That Indicated They Fully or Substantially Complied with the Act, and All of Them Fully Complied with the Higher Education Investment Reporting Requirements	3
Chapter 3 Most Community Colleges Submitted Compliance Audit Reports That Indicated They Fully or Substantially Complied with the Act, and All of Them Fully Complied with the Higher Education Investment Reporting Requirements	6
Chapter 4 All Four University Systems Subject to the Higher Education Investment Reporting Requirements But Not Subject to the Act Fully Complied with Those Requirements	9
Chapter 5 Summary of Investments for Agencies, Higher Education Institutions, and Community Colleges	10

Appendices

Appendix 1 Objectives, Scope, and Methodology	21
Appendix 2 Instances of Noncompliance with the Act	24
Appendix 3 Definitions of Asset Classes	32
Appendix 4 Related State Auditor’s Office Work	36

Detailed Results

Chapter 1

Most Agencies Submitted Compliance Audit Reports That Indicated They Fully or Substantially Complied with the Act

Definitions of Compliance with Act

- Fully Compliant: No findings were reported.
- Substantially Compliant: Few findings were reported that may include a significant finding related to policies, contracting, training, reporting, reviewing, or auditing.
- Minimally Compliant: Some findings were reported that were significant to policies, contracting, training, reporting, reviewing, or auditing.
- Noncompliant: The required compliance report was not provided or contained many findings that were significant to policies, contracting, training, reporting, reviewing, or auditing.

The Public Funds Investment Act (Act) in Texas Government Code, Chapter 2256, requires certain state agencies, higher education institutions, and community colleges to implement controls in the following areas: policies, contracting, training, reporting, and reviewing. The Act contains multiple requirements for each of those areas, and compliance with those requirements must be tested by the entities' internal or external auditors at least every two years. The results of those audits must be reported to the State Auditor.

The State Auditor's Office reviewed the compliance audit reports that agencies submitted and, based on the results of the audits, made determinations on the level of compliance with the Act (see text box).

Agencies' Compliance with the Act

The 14 agencies subject to the Act reported investments totaling approximately \$17.4 billion as of August 31, 2015 (see Table 2 on page 10 for more information).

Eight of those 14 agencies submitted compliance audit reports that indicated they fully complied with the Act in fiscal year 2015. Those agencies were:

- Board of Law Examiners.
- Department of Criminal Justice.
- Department of Housing and Community Affairs.
- Real Estate Commission.
- State Bar of Texas.
- Texas State Affordable Housing Corporation.
- Treasury Safekeeping Trust Company (TexPool Prime).
- Treasury Safekeeping Trust Company (TexPool).

The following four agencies submitted compliance audit reports that indicated they substantially complied with the Act in fiscal year 2015 (see Appendix 2 for additional details regarding those agencies' compliance):

- Central Texas Turnpike System at the Department of Transportation.
- School for the Blind and Visually Impaired.
- Texas Access to Justice Foundation (Supreme Court).
- Trusteed Programs Within the Office of the Governor.

The Water Development Board and the Texas Military Department submitted compliance audit reports that indicated they were minimally compliant with the Act in fiscal year 2015. Although the Texas Military Department submitted its compliance audit report on May 3, 2016, which was after the extended due date of March 25, 2016, auditors considered that report in reviewing compliance.

All Higher Education Institutions Submitted Compliance Audit Reports That Indicated They Fully or Substantially Complied with the Act, and All of Them Fully Complied with the Higher Education Investment Reporting Requirements

Definitions of Compliance with Act

- Fully Compliant: No findings were reported.
- Substantially Compliant: Few findings were reported that may include a significant finding related to policies, contracting, training, reporting, reviewing, or auditing.
- Minimally Compliant: Some findings were reported that were significant to policies, contracting, training, reporting, reviewing, or auditing.
- Noncompliant: The required compliance report was not provided or contained many findings that were significant to policies, contracting, training, reporting, reviewing, or auditing.

The Public Funds Investment Act (Act) in Texas Government Code, Chapter 2256, requires certain state agencies, higher education institutions, and community colleges to implement controls in the following areas: policies, contracting, training, reporting, and reviewing. The Act contains multiple requirements for each of those areas, and compliance with those requirements must be tested by the entities' internal or external auditors at least every two years. The results of those audits must be reported to the State Auditor.

The State Auditor's Office reviewed the compliance audit reports that higher education institutions submitted and, based on the results of the audits, made determinations on the level of compliance with the Act (see text box).

Higher Education Institutions' Compliance with the Act

The 17 higher education institutions subject to the Act reported investments totaling almost \$1.54 billion as of August 31, 2015 (see Table 3 on page 13 for more information).

Seven of those 17 higher education institutions submitted compliance audit reports that indicated they fully complied with the Act in fiscal year 2015. Those seven higher education institutions were:

- Lamar Institute of Technology.
- Lamar State College – Orange.
- Lamar State College – Port Arthur.
- Stephen F. Austin State University.
- Texas State University.
- Texas State University System.
- Texas Woman's University.

The following 10 higher education institutions submitted compliance audit reports that indicated they substantially complied with the Act in fiscal year

2015 (see Appendix 2 for additional details regarding those higher education institutions' compliance):

- Lamar University.
- Midwestern State University.
- Sam Houston State University.
- Sul Ross State University.
- Texas Southern University.
- Texas State Technical College.
- University of North Texas at Dallas.
- University of North Texas Health Science Center at Fort Worth.
- University of North Texas System.
- University of North Texas.

Higher Education Institutions' Compliance with Higher Education Investment Reporting Requirements

The State Auditor's Office reviewed the higher education institutions' Web sites for investment disclosures and made determinations on the level of compliance with the higher education investment reporting requirements (see text box). Specifically, auditors reviewed the higher education institutions' Web sites for the required disclosures and determined that all 17 higher education institutions fully complied with the higher education investment reporting requirements in Rider 5, page III-241, General Appropriations Act (83rd Legislature), and as prescribed by the State Auditor's Office. Those requirements included the following:

Definitions of Compliance with the Higher Education Investment Reporting Requirements

- Fully Compliant: Investment disclosures met all reporting requirements.
- Substantially Compliant: Investment disclosures met most reporting requirements, with minor omissions.
- Minimally Compliant: Investment disclosures had some significant omissions.
- Noncompliant: Investment disclosures omitted most or all of the required disclosures and reports.

- Submitting an annual investment report to the State Auditor's Office, the Office of the Comptroller of Public Accounts, the Office of the Governor, and the Legislative Budget Board, using the format prescribed by the State Auditor's Office.

- Disclosing the following information on the higher education institution's Web site:
 - Quarterly investment reports.
 - The use of outside investment advisors or managers.
 - The use of soft dollar agreements, directed brokerage or directed commission, commission recapture, or similar arrangements.³
 - Associations with independent endowments or foundations.
 - Current investment policies.

³ Those arrangements typically involve using brokerage commissions as a means of paying for other related investment services through credits of a portion of brokerage commissions paid, rather than through direct payments or using selected brokers who rebate a portion of the commission they receive on trades for the investor.

Most Community Colleges Submitted Compliance Audit Reports That Indicated They Fully or Substantially Complied with the Act, and All of Them Fully Complied with the Higher Education Investment Reporting Requirements

Definitions of Compliance with the Public Funds Investment Act

- Fully Compliant: No findings were reported.
- Substantially Compliant: Few findings were reported that may include a significant finding related to policies, contracting, training, reporting, reviewing, or auditing.
- Minimally Compliant: Some findings were reported that were significant to policies, contracting, training, reporting, reviewing, or auditing.
- Noncompliant: The required compliance report was not provided or contained many findings that were significant to policies, contracting, training, reporting, reviewing, or auditing.

The Public Funds Investment Act (Act) in Texas Government Code, Chapter 2256, requires certain state agencies, higher education institutions, and community colleges to implement controls in the following areas: policies, contracting, training, reporting, and reviewing. The Act contains multiple requirements for each of those areas, and compliance with those requirements must be tested by the entities’ internal or external auditors at least every two years. The results of those audits must be reported to the State Auditor.

The State Auditor’s Office reviewed the compliance audit reports that community colleges submitted and, based on the results of the audits, made determinations on the level of compliance with the Act (see text box).

Community Colleges’ Compliance with the Act

The 50 community colleges reported investments totaling approximately \$2.8 billion as of August 31, 2015 (see Table 4 on page 15 for more information).

Forty-six community colleges submitted compliance audit reports that indicated they fully complied with the Act in fiscal year 2015.

Table 1 lists the community colleges that fully complied with the Act in fiscal year 2015.

Table 1

Community Colleges That Fully Complied with the Act in Fiscal Year 2015
Alamo Community College
Alvin Community College
Amarillo College
Angelina County Junior College
Austin Community College
Blinn College
Brazosport College
Central Texas College
Cisco Junior College

Community Colleges That Fully Complied with the Act
in Fiscal Year 2015

Coastal Bend College
College of the Mainland
Collin County Community College
Dallas County Community College
Del Mar College
El Paso County Community College
Frank Phillips College
Galveston Community College
Grayson County College
Hill College
Houston Community College
Howard County Junior College
Kilgore Junior College
Lee College
Lone Star College
McLennan County Junior College
Midland Community College
Navarro College
North Central Texas Community College
Odessa Junior College
Panola College
Paris Junior College
San Jacinto College
South Plains College
South Texas College
Southwest Texas Junior College
Tarrant County College
Temple College
Texarkana College
Texas Southmost College
Trinity Valley Community College
Tyler Junior College
Vernon College
Victoria County Junior College
Weatherford College of the Parker County Junior College
Western Texas College
Wharton County Junior College

The following community colleges submitted compliance audit reports that indicated they substantially complied with the Act in fiscal year 2015 (see Appendix 2 for additional details regarding those community colleges' compliance):

- Laredo Community College.
- Northeast Texas Community College.
- Ranger College.

Clarendon College submitted a compliance audit report that indicated it minimally complied with the Act in fiscal year 2015.

Definitions of Compliance with the Higher Education Investment Reporting Requirements

- Fully Compliant: Investment disclosures met all reporting requirements.
- Substantially Compliant: Investment disclosures met most reporting requirements, with minor omissions.
- Minimally Compliant: Investment disclosures contained some significant omissions.
- Noncompliant: Investment disclosures omitted most or all of the required disclosures and reports.

Community Colleges' Compliance with Higher Education Investment Reporting Requirements

The State Auditor's Office reviewed the community colleges' Web sites for investment disclosures and made determinations on the level of compliance with the Higher Education Investment Reporting Requirements (see text box).

All 50 community colleges fully complied with the higher education investment reporting requirements in Rider 5, page III-241, General Appropriations Act (83rd Legislature), and as prescribed by the State Auditor's Office (see information on page 4 regarding those requirements).

All Four University Systems Subject to the Higher Education Investment Reporting Requirements But Not Subject to the Act Fully Complied with Those Requirements

Certain higher education institutions are subject to the higher education investment reporting requirements (see page 4 for more information about those requirements) but are not subject to the Act. According to the Act, any higher education institution that had total endowments of at least \$95 million in book value as of May 1, 1995, is not subject to the Act.

The Texas A&M University System, the Texas Tech University System, the University of Houston System, and the University of Texas System are not subject to the Act based on the criteria discussed above. For fiscal year 2015, those four university systems fully complied with the higher education investment reporting requirements in Rider 5, page III-241, General Appropriations Act (83rd Legislature) and as prescribed by the State Auditor's Office. (Those university systems reported for all higher education institutions they oversee.) Those university systems reported investments totaling approximately \$50.0 billion as of August 31, 2015 (see Table 5 on page 18 for more information).

Summary of Investments for Agencies, Higher Education Institutions, and Community Colleges

The agencies, higher education institutions, and community colleges that auditors reviewed reported different types of investments as of August 31, 2015. Specifically, higher education institutions that are not subject to the Act invested differently from the other types of entities that are subject to the Act. For example:

- Higher education institutions that are not subject to the Act had \$211,315,627 in derivative investment holdings as of August 31, 2015, and 58.58 percent of their portfolios invested in “other nontraditional investments,” including real estate, private equity, commodities, natural resources, hedge funds, and other miscellaneous investments.
- Higher education institutions that are subject to the Act had 8.57 percent of their portfolios invested in “other nontraditional investments,” and their portfolios included no derivative investment holdings as of August 31, 2015.
- Community colleges that are subject to the Act had 1.04 percent of their portfolios invested in “other nontraditional investments,” and their portfolios included no derivative investment holdings as of August 31, 2015.
- Agencies that are subject to the Act had 4.45 percent of their portfolios invested in “other nontraditional investments,” and their portfolios included no derivative investment holdings as of August 31, 2015.

Investments at Agencies Subject to the Act

Table 2 lists the total investments as of August 31, 2015, reported by agencies subject to the Act.

Table 2

Total Investments for Agencies That Are Subject to the Act ^a	
Agency	Market Value of Investments as of August 31, 2015
Board of Law Examiners	\$ 996,566
Department of Criminal Justice ^b	30,024,885
Department of Housing and Community Affairs	834,225,545
Department of Transportation ^c	342,570,000
Real Estate Commission	14,517,325

Total Investments for Agencies That Are Subject to the Act ^a	
Agency	Market Value of Investments as of August 31, 2015
School for the Blind and Visually Impaired	611,853
State Bar of Texas ^d	39,756,348
Texas Access to Justice Foundation (Supreme Court) ^e	16,418,384
Treasury Safekeeping Trust Company (TexPool)	12,518,036,148
Treasury Safekeeping Trust Company (TexPool Prime)	981,770,782
Texas Military Department	2,571,122
Texas State Affordable Housing Corporation	7,756,276
Trusted Programs Within the Office of the Governor	2,199,801
Water Development Board	2,633,280,887
Total	\$ 17,424,735,922

^a This table includes investment information only for agencies that are subject to the Act and does not include cash. The amounts in this table are based on agency self-reported information, and auditors did not perform tests or other procedures to verify the accuracy of the reported amounts. The amounts include agency investments that are subject to the Act, but they exclude agencies' **investments in the Treasury Safekeeping Trust Company (TexPool) and Treasury Safekeeping Trust Company (TexPool Prime)** to prevent counting those holdings twice.

^b Excludes \$2,348,855.79 in TexPool and TexPool Prime to avoid duplication in the overall total of investments.

^c Excludes \$153,925,000.00 in TexPool and TexPool Prime to avoid duplication in the overall total of investments.

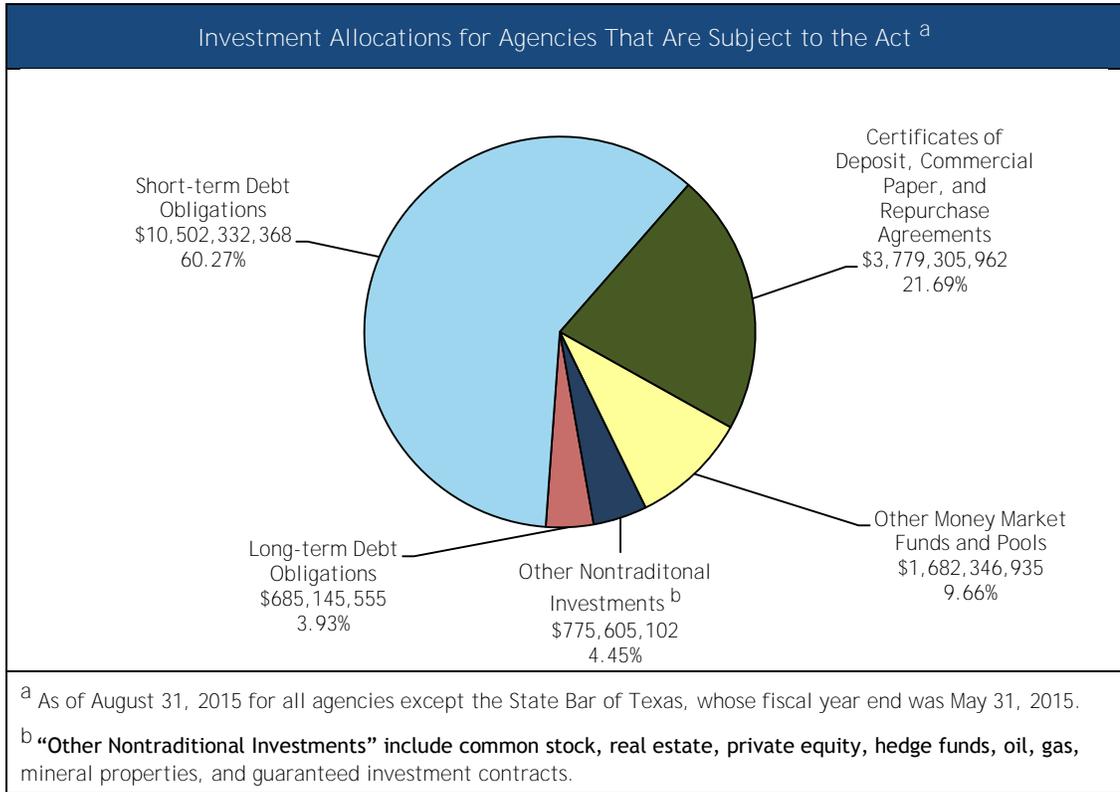
^d Data is as of May 31, 2015, which is **the State Bar of Texas's fiscal year end**.

^e Excludes \$1,020.26 in TexPool and TexPool Prime to avoid duplication in the overall total of investments.

Sources: Unaudited annual financial reports prepared by the Board of Law Examiners, Department of Criminal Justice, Trusted Programs within the Office of the Governor, Real Estate Commission, School for the Blind and Visually Impaired, Water Development Board, and Texas Military Department; annual investment report for the Texas Access to Justice Foundation; and audited annual financial reports of the State Bar of Texas, Department of Transportation, Department of Housing and Community Affairs, TexPool, TexPool Prime, and the Texas State Affordable Housing Corporation.

Figure 1 shows the agency investment allocations as of August 31, 2015 (see Appendix 3 for definitions of specific asset classes).

Figure 1



Sources: Unaudited annual financial reports prepared by the Board of Law Examiners, Department of Criminal Justice, Truusted Programs within the Office of the Governor, Real Estate Commission, School for the Blind and Visually Impaired, Water Development Board, and Texas Military Department; annual investment report for the Texas Access to Justice Foundation; and audited annual financial reports of the State Bar of Texas, Department of Transportation, Department of Housing and Community Affairs, TexPool, TexPool Prime, and the Texas State Affordable Housing Corporation.

Investments at Higher Education Institutions That Are Subject to the Act

Table 3 lists the total investments as of August 31, 2015, reported by higher education institutions that are subject to the Act.

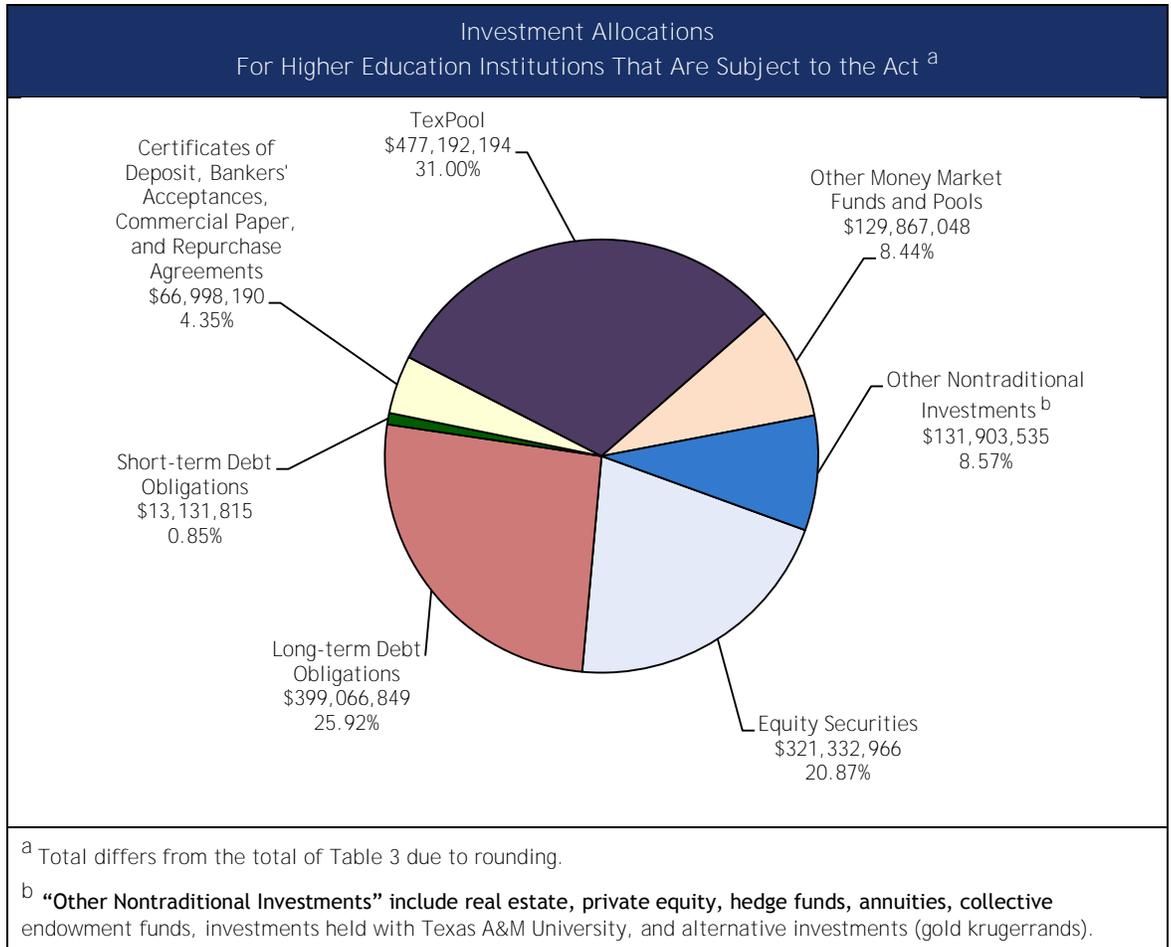
Table 3

Total Investments for Higher Education Institutions That Are Subject to the Act ^a	
Higher Education Institution	Market Value of Investments as of August 31, 2015
Lamar Institute of Technology	\$ 3,844,099
Lamar State College - Orange	17,521,822
Lamar State College - Port Arthur	3,860,022
Lamar University	48,203,304
Midwestern State University	90,985,048
Sam Houston State University	194,271,317
Stephen F. Austin State University	73,018,988
Sul Ross State University	33,399,957
Texas Southern University	58,322,348
Texas State Technical College System	5,353,789
Texas State University	375,940,471
Texas State University System	12,527,581
Texas Woman's University	224,905,905
University of North Texas	283,203,550
University of North Texas at Dallas	10,055,038
University of North Texas Health Science Center at Fort Worth	90,425,592
University of North Texas System	13,653,767
Total	\$ 1,539,492,598
^a Amounts do not include cash.	

Sources: Unaudited annual investment reports provided by the higher education institutions.

Figure 2 shows the investment allocations as of August 31, 2015, for higher education institutions that are subject to the Act.

Figure 2



Sources: Unaudited annual investment reports provided by the higher education institutions.

Investments at Community Colleges

Table 4 lists the total investments as of August 31, 2015, reported by community colleges that are subject to the Act.

Table 4

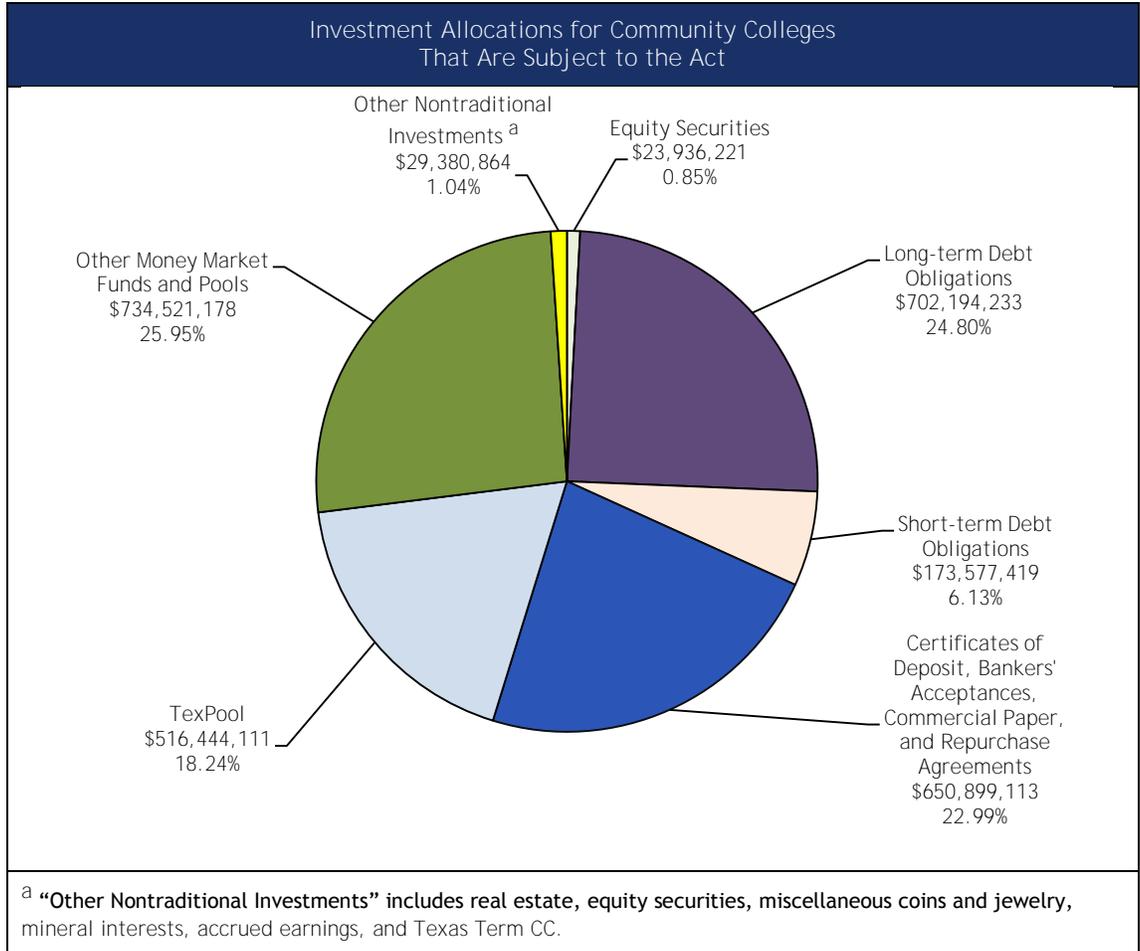
Total Community College Investments ^a	
Community College	Market Value of Investments as of August 31, 2015
Alamo Community College	\$ 145,575,361
Alvin Community College	6,000,000
Amarillo College	37,589,106
Angelina County Junior College	7,991,872
Austin Community College	246,817,940
Blinn College	54,902,253
Brazosport College	14,067,442
Central Texas College	129,983,247
Cisco Junior College	1,801,244
Clarendon College	5,206,150
Coastal Bend College	1,214,092
College of the Mainland	19,407,933
Collin County Community College	246,465,910
Dallas County Community College	325,395,466
Del Mar College	66,188,683
El Paso County Community College	78,647,147
Frank Phillips College	326,015
Galveston Community College	12,766,467
Grayson County College	13,721,515
Hill College	3,626,436
Houston Community College	499,398,967
Howard County Junior College	14,496,876
Kilgore Junior College	17,449,805
Laredo Community College	0
Lee College	23,521,818
Lone Star College	253,977,226
McLennan County Junior College	14,920,299
Midland Community College	26,981,208
Navarro College	1,374,645
North Central Texas Community College	33,293,860
Northeast Texas Community College	2,370,864
Odessa Junior College	28,745,398
Panola College	23,509,749

Total Community College Investments ^a	
Community College	Market Value of Investments as of August 31, 2015
Paris Junior College	11,000,000
Ranger College	0
San Jacinto College	8,249,356
South Plains College	15,815,182
South Texas College	99,374,387
Southwest Texas Junior College	12,153,758
Tarrant County College	230,594,698
Temple College	19,867,951
Texarkana College	3,041,808
Texas Southmost College	121,818
Trinity Valley Community College	5,925,587
Tyler Junior College	11,008,039
Vernon College	4,590,000
Victoria County Junior College	450
Weatherford College of the Parker County Junior College	8,166,027
Western Texas College	4,675,927
Wharton County Junior College	38,633,157
Total	\$ 2,830,953,139
^a Amounts do not include cash.	

Sources: Unaudited annual investment reports provided by the community colleges.

Figure 3 shows the community college investment allocations as of August 31, 2015.

Figure 3



Sources: Unaudited annual investment reports provided by the community colleges.

Investments at Higher Education Institutions That Are Not Subject to the Act

Table 5 lists the total investments reported by higher education institutions that are not subject to the Act but that are subject to higher education investment reporting requirements.

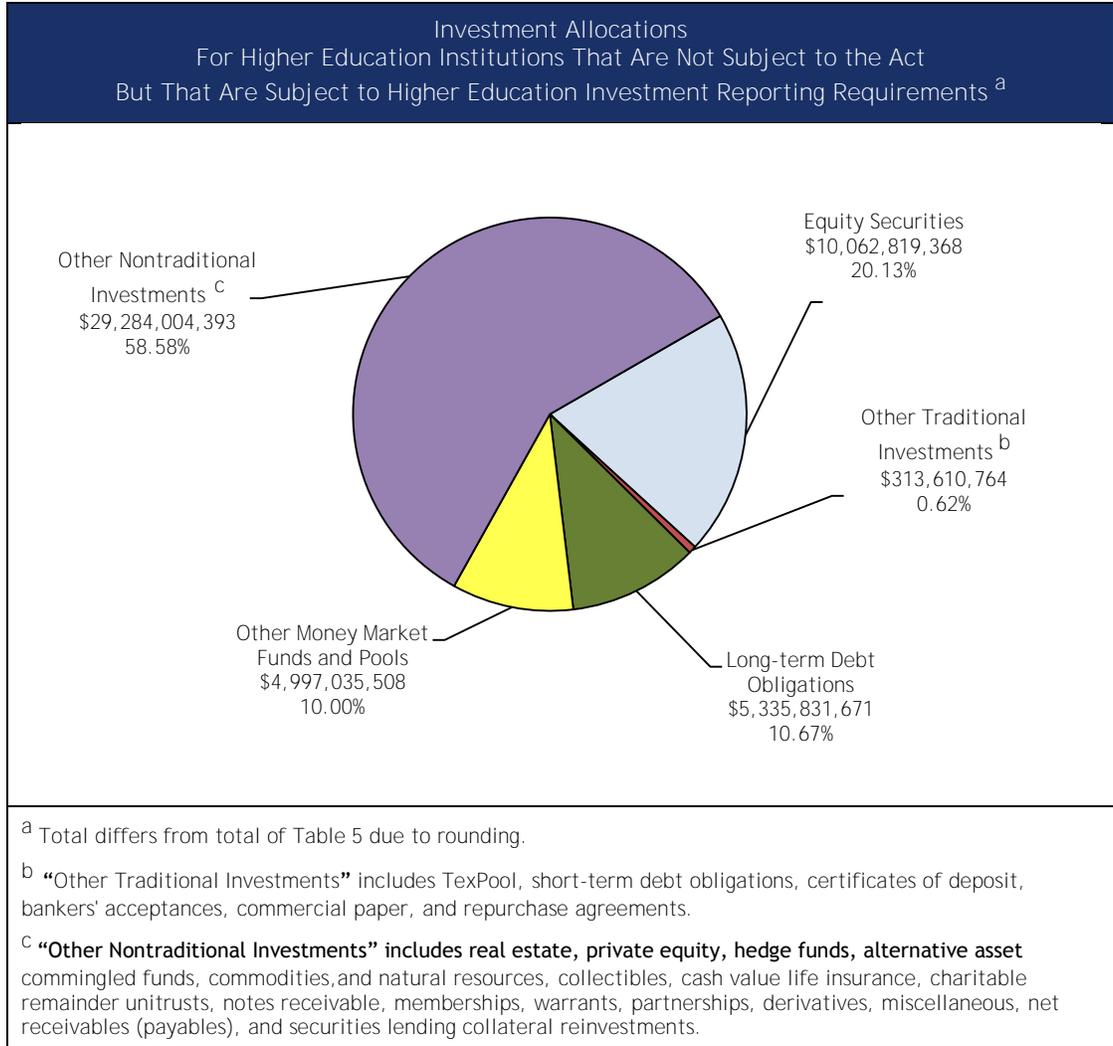
Table 5

Total Investments for Higher Education Institutions That Are Not Subject to the Act But That Are Subject to Higher Education Investment Reporting Requirements ^a	
Higher Education Institution	Market Value of Investments as of August 31, 2015
Texas A&M University System	\$ 4,267,253,863
Texas Tech University System	2,096,497,443
University of Houston System	1,155,337,708
The University of Texas System	42,474,212,691
Total	\$ 49,993,301,705
^a Amounts do not include cash.	

Sources: Unaudited annual investment reports provided by the higher education institutions.

Figure 4 shows the investment allocations as of August 31, 2015, for higher education institutions that are not subject to the Act but that are subject to higher education investment reporting requirements.

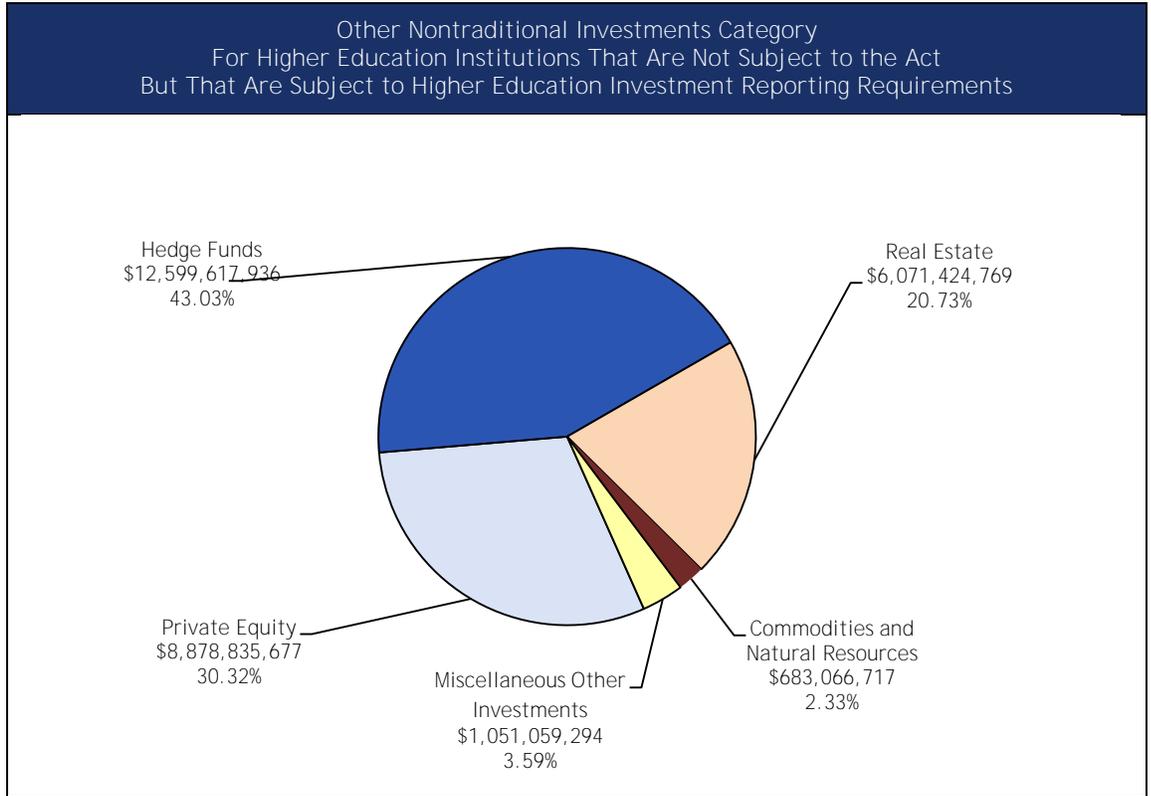
Figure 4



Sources: Unaudited annual investment reports provided by the higher education institutions.

As shown in Figure 4 on the previous page, “other nontraditional investments” represented more than 58 percent of the overall portfolio for higher education institutions that are not subject to the Act but that are subject to higher education investment reporting requirements. Figure 5 shows the investment types that are included in “other nontraditional investments” that make up the 58.58 percent shown in Figure 4.

Figure 5



Source: Unaudited annual investment reports provided by the higher education institutions.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this project were to:

- Determine whether state agencies and most higher education institutions complied with the Public Funds Investment Act (Act) requirement to submit a compliance audit report to the State Auditor's Office by January 1, 2016.
- Determine whether higher education institutions complied with Special Provisions Relating Only to State Agencies of Higher Education, Rider 5, page III-241, General Appropriations Act (83rd Legislature), and reporting requirements as prescribed by the State Auditor's Office on its Web site at <http://www.sao.texas.gov/Resources/IntAud/pubfunds.html>.

Scope

The scope of this project covered investment disclosures with due dates of December 31, 2015, and compliance audit reports with due dates of January 1, 2016. The compliance audit reports received were dated from May 2014 through April 2016. State auditors performed reviews of the reports from January 2016 through May 2016.

Auditors considered information provided through March 25, 2016 for agencies, higher education institutions, and community colleges when determining compliance with the audit and higher education investment requirements. Although the Texas Military Department submitted its compliance audit report on May 3, 2016, which was after the extended due date of March 25, 2016, auditors considered that report in reviewing compliance.

Methodology

The methodology for this project consisted of (1) collecting and evaluating evidence regarding compliance with the Act included in entities' most recent compliance audit reports, (2) reviewing higher education institutions' and community colleges' Web sites and the documents that they submitted to the State Auditor's Office for the required investment disclosures, and (3) compiling entities' investment balances individually and by type of entity. In addition, auditors communicated with agencies, higher education

institutions, and community colleges in an effort to clarify the relevant requirements. Auditors did not perform any information technology work. It is important to note that the entities self-reported the information in this report, and the State Auditor's Office did not independently verify that information.

Information collected and reviewed included the following:

- Audited and unaudited annual financial reports.
- Annual investment reports.
- Compliance audit reports issued by entities' internal or external auditors.
- Investment policies of higher education institutions and community colleges.
- Investment disclosures on higher education institutions' and community colleges' Web sites.

Procedures and tests conducted included the following:

- Reviewing compliance audit reports and summarizing any findings reported.
- Determining whether each higher education institution and community college submitted an annual investment report to the State Auditor's Office or posted that report on its Web site.
- Determining whether the annual investment report for each higher education institution and community college used the format prescribed by the State Auditor's Office.
- Determining whether each higher education institution and community college submitted its investment policy to the State Auditor's Office or posted that policy on its Web site.
- Determining whether each higher education institution and community college posted a quarterly investment report as of August 31, 2015, or a more recent report on its Web site.
- Determining whether each higher education institution and community college posted answers to three questions regarding outside investment managers, soft-dollar arrangements, and foundations on its Web site.
- Compiling investment balances for each entity individually and by type of entity.

Criteria used included the following:

- The Public Funds Investment Act (Texas Government Code, Chapter 2256).
- Higher education investment reporting requirements mandated by Rider 5, page III-241, General Appropriations Act (83rd Legislature), and prescribed by the State Auditor's Office on its Web site at <http://www.sao.texas.gov/Resources/IntAud/pubfunds.html>.

Project Information

Project fieldwork was conducted from January 2016 through May 2016. The information in this report was not subjected to all the tests and confirmations that would be performed in an audit. However, the information in this report was subjected to certain quality control procedures to ensure accuracy.

The following members of the State Auditor's staff performed the project:

- Eric Ladejo, MPA (Project Manager)
- Jessica Volkmann, CPA
- Dana Musgrave, MBA (Quality Control Reviewer)
- Michael O. Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

Instances of Noncompliance with the Act

Tables 6 through 8 provide information on the instances of noncompliance reported in the audit reports issued by the internal and external auditors of agencies, higher education institutions, and community colleges that are subject to the Public Fund Investment Act (Act).

Table 6

Agencies That Were Not Fully Compliant with the Act (From Compliance Audit Reports as of August 31, 2015)		
Agency	Area of Noncompliance	Summary of Internal or External Auditor Items of Noncompliance
Agencies That Were Minimally Compliant with the Act		
Texas Military Department (Department)	Training	The Department’s investment officer had not attended Public Funds Investment Act investment training since 2012. That training is required every two years.
	Policies	The Department did not review and update its investment policy and strategy on an annual basis, as required by the Act.
	Policies	The Department did not actively manage its investment policy to ensure compliance with the Act.
	Reporting	The Department’s investment management reporting did not meet the requirements of the Act.
Water Development Board (Board)	Policies	The Board’s written investment policy complied with the key requirements of the Act; however, it did not include a statement regarding the maximum dollar weighted average maturity for pooled fund groups, as required by Section 2256.005(b)(4)(C) of the Act. The Board’s pooled fund group consists of the State Revolving Fund, Water Development Fund, and Texas Water Resources Finance Authority.
	Policies	Auditors reviewed (1) selected fiscal year 2015 portfolio transactions and holdings to determine compliance with the Board’s investment policy and adherence to strategies, restrictions, controls, and objectives as defined in the investment policy and (2) the Board’s contractual agreement with the Texas Treasury Safekeeping Trust Company and identified the following: <ul style="list-style-type: none"> ▪ Investment holdings were analyzed by asset type to determine whether funds managed by the Board on behalf of the Texas Water Resource Finance Authority were invested in accordance with Section XI (a)(6) of the investment policy. Auditors determined that Board’s pooled fund group invests in commercial paper. Investments included in a pooled fund account are comingled and cannot be allocated to a particular program; therefore, the pool included unauthorized investments. ▪ Investments in the Board’s pooled fund group complied with Section V of the investment policy, with the exception of two securities with maturities that exceeded the 360-days maximum. The Board did not provide documentation showing an exemption to the maximum. Securities are exempt when they are associated with reserves funds or with specific approval of the Board.
	Contracting	The members of the Water Development Board had not reviewed and approved the month-to-month contract between the Texas Treasury Safekeeping Trust Company and the Board since that contract’s inception in 2006.

Agencies That Were Not Fully Compliant with the Act
(From Compliance Audit Reports as of August 31, 2015)

Agency	Area of Noncompliance	Summary of Internal or External Auditor Items of Noncompliance
	Training	One investment officer attended certain training, but not within the required time frame specified in Section 2256.007(a) of Act. Additionally, that training session was related to the duties and responsibilities of governing board members, and it was not intended for investment officers.
	Training	One staff member did not attend a training session during the required time frame specified in Section VII of the Board's investment policy.
	Training	Documentation was not available to verify that the investment officer had provided a report to the members of the Water Development Board on training activities, as required by Section 2256.007(d) of the Act.
	Reporting	Auditors identified issues involving investment reports for multiple quarters in fiscal year 2015. Specifically: <ul style="list-style-type: none"> ▪ The quarterly investment report for the first quarter was not signed by all investment officers, as required by Section 2256.023(b)(3) of the Act. ▪ The Board did not submit quarterly investment reports for the first, second, and third quarters within a reasonable time after the end of the quarter, as required by Section 2256.023(c) of the Act. ▪ The quarterly investment reports did not include a summary statement for the Board's pooled fund group, in accordance with Sections 2256.023(b)(4)(A)(B)(C) and (7) of the Act.
	Reporting	Auditors reviewed the accuracy of fiscal year 2015 quarterly investment reports by reconciling the holdings data that the Texas Treasury Safekeeping Trust Company provided to the balances in quarterly investment reports. Auditors identified the following errors: <ul style="list-style-type: none"> ▪ The investment portfolio composition graphs in the quarterly investment reports for the second, third, and fourth quarters were incorrect. ▪ The summary statements of investment holdings included in the quarterly investment report for the second quarter did not reconcile to the holdings data that the Texas Treasury Safekeeping Trust Company provided.
	Reporting	Auditors were unable to confirm the accuracy of cash the Board reported in the quarterly investment reports for fiscal year 2015 because the Board did not perform consistent reconciliations of cash and investment balances to independent reports.
	Reviewing	The members of the Water Development Board reviewed and approved the investment policy and strategies for fiscal years 2014 and 2015, as required by Section 2256.005(e) of the Act and Section XVII of the Board's investment policy. However, the policy for fiscal year 2015 was not presented to the members of the Water Development Board within 365 days from the last review, as required by Section 2256.005(e) of the Act.
Agencies That Were Substantially Compliant with the Act		
Central Texas Turnpike System (System)	Policies	The System was unable to provide a signed ethics and conflict of interest document for the chief financial officer.

Agencies That Were Not Fully Compliant with the Act
(From Compliance Audit Reports as of August 31, 2015)

Agency	Area of Noncompliance	Summary of Internal or External Auditor Items of Noncompliance
School for the Blind and Visually Impaired (School)	Policies	The School should update and enhance its investment policy and procedures by adding monitoring requirements to policy and procedural steps for the monitoring of investments and cash flow forecasting. Those procedures should identify responsible parties for compiling information, frequency of activity, level of detail to be captured, documentation requirements, and oversight responsibilities.
Texas Access to Justice Foundation (Foundation, a component unit of the Supreme Court)	Reporting	The Foundation's quarterly investment reports for December 2014, March 2015, and June 2015 omitted an Invesco Fund of \$415,985; \$420,166; and \$5,192, respectively.
	Reporting	The quarterly investment report for September 2014 omitted a money market account in the amount of \$5,313, and investment market values were \$486 less than the holdings report prepared by the Foundation's investment advisor .
	Reporting	The quarterly investment report for December 2014 was \$486 less than the holdings report prepared by the Foundation's investment advisor .
	Reporting	The March 2015 and June 2015 quarterly investment report market values were \$3,866 and \$3,946, respectively, more than the holdings report prepared by the Foundation's investment advisor .
Trusteed Programs Within the Office of the Governor (Office)	Policies	The Office did not consistently retain required documentation of its units' adherence to statutory provisions governing periodic review of investment policies and training of board members .
	Policies	Controls did not result in certain administrative provisions being consistently included in the Office's investment policies . For the period under audit, the Office omitted provisions from its investment policy related to three component units.
	Policies	Controls did not result in certain administrative records being consistently developed or retained. For the period under audit: <ul style="list-style-type: none"> ▪ The records of investment policy adoption were inconsistent for four component units. ▪ The records of investment officer designation were inconsistent for three component units. ▪ A record of compliance with a unique investment requirement was not retained for one component unit. ▪ A record of board consideration of "brokers" was not retained for three component units.
	Training	Controls did not result in certain administrative records being consistently developed or retained. For the period under audit, records of board member training were inconsistent for two component units.
	Reviewing	Controls did not result in certain administrative records being consistently developed or retained. For the period under audit, the records of investment policy review were inconsistent for three component units.

Source: State Auditor's Office review of the compliance audit reports that internal or external auditors issued.

Table 7

Higher Education Institutions That Were Not Fully Compliant with the Act (From Compliance Audit Reports as of August 31, 2015)			
Higher Education Institution	Area of Noncompliance	Summary of Entity's Internal or External Auditor Compliance Audit Findings	
Higher Education Institutions That Were Substantially Compliant with the Act			
Lamar University (University)	Reporting	The University overstated investment income on its quarterly investment report for all quarters in fiscal years 2014 and 2015 by \$427,047.85. To calculate and report investment income for “cash in bank,” the University used the earnings allowance reported on the monthly client analysis statement that its bank provided, rather than the amount of interest actually earned and reflected on the bank statements (however, the University recorded the correct amount of investment income in its accounting system). The earnings allowance includes reward dollars that offset monthly bank charges and can be used for services the bank offers (such as printing), but it does not represent actual income.	
	Reporting	The designated investment officer resigned in March 2015. However, that individual continued to prepare the quarterly investment report through November 2015. There was no evidence that the report was prepared jointly by all investment officers.	
	Reporting	Auditors identified issues involving required signatures on the investment reports for multiple quarters. Specifically: <ul style="list-style-type: none"> ▪ The November 2013 investment report was not signed by the chief financial officer (the University's vice president for finance and operations). ▪ The February 2014 investment report was not signed by the chief financial officer (the University's vice president for finance and operations). ▪ The May 2014 investment report was not signed by the chief financial officer (the University's vice president for finance and operations); instead, it was signed only by an individual who was not a designated investment officer. ▪ The August 2014 investment report was not signed by the chief financial officer (the University's vice president for finance and operations). ▪ The November 2014 investment report was not signed by the chief financial officer (the University's vice president for finance and operations). ▪ The February 2015 investment report was not signed by the chief financial officer (the University's vice president for finance and operations); instead, it was signed only by an individual who was not a designated investment officer. 	
	Reporting	The quarterly investment reports for fiscal years 2014 and 2015 provided cash amounts as a total under “cash in bank” and did not provide individual account information.	
	Reporting	The University did not post accurate Web page links to the quarterly investment reports for November 2013 and February 2015.	
	Midwestern State University (University)	Policies	The University's investment policies did not address the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio for pooled fund groups, as required by Section 2256.005(b)(4)(C) of the Act.
		Policies	The University's board of regents did not review the endowment funds investment policy and operating funds investment policy during fiscal year 2015.

Higher Education Institutions That Were Not Fully Compliant with the Act
(From Compliance Audit Reports as of August 31, 2015)

Higher Education Institution	Area of Noncompliance	Summary of Entity's Internal or External Auditor Compliance Audit Findings
	Contracting	The University did not contract with an external advisor. The contracts between the University and its professional investment manager did not include formal performance targets in place, and there was no evidence that the University reviewed the professional investment manager's performance during fiscal year 2015 .
	Reviewing	The vice president of business affairs and finance provided only verbal approval for all reinvestment, distribution, transfer, and withdrawal decisions.
Sam Houston State University (University)	Reporting	The University posted three questions and answers on its finance and operations investment disclosure Web site. However, the second question was incomplete; therefore, the answer was also incomplete. The University later reposted the second question and its answer in their entirety; therefore, auditors made no related recommendations.
	Reporting	The University overstated the book balance reported for "cash in bank" (Trustmark) in the quarterly investment report for the second quarter of fiscal year 2015 by \$0.01. It also overstated the investment income for Atlanta Capital Management in the quarterly investment report for the fourth quarter of fiscal year 2015 by \$0.19.
Sul Ross State University (University)	Reporting	The February 2015 quarterly investment report correctly reported the ending market value for a collateralized mortgage obligation that the University had sold during the quarter as \$0.00. However, the University incorrectly reported the book balance as \$1,628.83.
	Reporting	The University undercollateralized bank balances for one bank by \$922,527.55 as of August 31, 2015.
Texas Southern University (University)	Contracting	The University did not have current executed investment advisory agreements with its investment managers/advisors, as required by Section 2256.003 of the Act.
	Reporting	Quarterly investment reports the University submitted to its board of regents did not contain all the elements required by Section 2256.023 of the Act for fiscal year 2015.
Texas State Technical College System (System)	Policies	Auditors identified instances in which certain System employees signed and acknowledged conflict of interest forms and policies after the required dues dates
	Training	Auditors recommended enhancements to training records.
University of North Texas (University)	Policies	The University's conflict of Interest policy relied on self-disclosure. The University did not have a formal process to determine and document whether an investment officer or any authorized designee had a personal business relationship with a business organization offering to engage in an investment transaction with the University.
	Policies	For certain months in fiscal year 2015, the University's short-term working capital funds and long-term reserves percentages of available cash on hand were outside the ranges required by University of North Texas System regulation 08.2000, and the University did not make adjustments to comply with the ranges, as that regulation required.

Higher Education Institutions That Were Not Fully Compliant with the Act
(From Compliance Audit Reports as of August 31, 2015)

Higher Education Institution	Area of Noncompliance	Summary of Entity's Internal or External Auditor Compliance Audit Findings
	Reporting	The University's quarterly investment reports for fiscal year 2015 included: <ul style="list-style-type: none"> ▪ Mathematical errors. ▪ Six instances in which ending and beginning balances for successive quarters did not match.
	Reviewing	Two former employees had access to the University's repurchase sweep account. The University removed those former employees' access to other accounts.
University of North Texas at Dallas (University)	Policies	The University's conflict of interest policy relied on self-disclosure. The University did not have a formal process to determine and document whether an investment officer or any authorized designee had a personal business relationship with a business organization offering to engage in an investment transaction with the University.
	Policies	For certain months in fiscal year 2015, the University's short-term working capital funds and long-term reserves percentages of available cash on hand were outside the ranges prescribed by University of North Texas System regulation 08.2000, and the University did not make necessary adjustments to comply with the ranges, as that regulation required.
	Reporting	The University's quarterly investment reports for fiscal year 2015 included: <ul style="list-style-type: none"> ▪ Mathematical errors. ▪ Six instances in which ending and beginning balances for successive quarters did not match. ▪ For the quarterly investment report for the third quarter posted on the investment disclosure Web site, the beginning and ending balances did not match the prior and next quarter, respectively. ▪ The quarterly investment report for the third quarter posted on the investment disclosure Web site differed from the information presented to the board of regents.
University of North Texas Health Science Center at Fort Worth (Health Science Center)	Policies	One of three Health Science Center employees who had access to investment-related bank accounts did not complete the required conflict of interest form.
	Policies	The Health Science Center posted an outdated institutional investment policy on its Web site. However, that policy was superseded by University of North Texas System regulation 08.2000 in August 2012.
	Reporting	The balance of the Health Science Center's cash account in the investment report differed from the balances recorded in the general ledger as of August 31, 2015. The balance in the quarterly investment report was understated by \$4,430,968.57.
	Reporting	The August 31, 2015, quarterly investment report did not reflect the separation of investments belonging to the Health Science Center and its foundation.
	Reporting	For 11 days in August 2015, the Health Science Center's collateralization for deposit accounts fell below 102 percent of deposits, as required by Section 2256.0115(b)(1) of the Act.

Higher Education Institutions That Were Not Fully Compliant with the Act
(From Compliance Audit Reports as of August 31, 2015)

Higher Education Institution	Area of Noncompliance	Summary of Entity's Internal or External Auditor Compliance Audit Findings
University of North Texas System (System)	Policies	The System's conflict of interest policy relied on self-disclosure. The System does not have a formal process to determine and document whether an investment officer or any authorized designee had a personal business relationship with a business organization offering to engage in an investment transaction with the System.
	Policies	For certain months in fiscal year 2015, the System's short-term working capital funds and long-term reserves percentages of available cash on hand were outside the ranges required by System regulation 08.2000, and the System did not make necessary adjustments to comply with the ranges, as that regulation required.
	Reporting	The System's quarterly investment reports for fiscal year 2015 included: <ul style="list-style-type: none"> ▪ Mathematical errors. ▪ Six instances in which ending and beginning balances for successive quarters did not match.
	Reporting	The format and content of quarterly investment reports was not consistent across all University of North Texas higher education institutions. The University of North Texas and the University of North Texas Health Science Center at Fort Worth included cash in their quarterly investment reports, but the University of North Texas at Dallas and the University of North Texas System did not. Additionally, the quarterly investment report presentation format that the University of North Texas Health Science Center at Fort Worth used was not consistent with the format that the other University of North Texas higher education institutions used. ^a
	Reviewing	There was no evidence that the University of North Texas board of regents had reviewed and adopted a list of financial institutions for fiscal year 2015.

^a That issue was included in the audit reports for all higher education institutions in the University of North Texas System.

Source: State Auditor's Office review of the compliance audit reports that internal or external auditors issued.

Table 8

Community Colleges That Were Not Fully Compliant with the Act (From Compliance Audit Reports as of August 31, 2015)		
Community College	Area of Noncompliance	Summary of Internal or External Auditor Internal or External Auditor Comments
Community College That Was Minimally Compliant with the Act		
Clarendon College (College)	Policies	The College invested in corporate bonds, which was allowed by the Act but was not specifically allowed by the College's investment policy at the time of auditors' test work . The College was in the process of amending its policy to allow for investments in corporate bonds.
	Contracting	The College invested in corporate bonds that were rated below the tolerances allowed by the Act. While that may not be a finding if the investments are permanently endowed, due to the pooled nature of the College's investment account, auditors could not determine whether those specific bonds were in the permanently endowed account or the long-term investment account. The College later sold those bonds and is working to segregate the endowed funds from all other funds.
Community Colleges That Were Substantially Compliant with the Act		
Laredo Community College (College)	Policies	As required by Section 2256.005(k) of the Act and the College's investment policy, the College is required to have an investment officer's certification of receipt and review of the investment policy when that policy is provided to any newly appointed investment officer. The College did not obtain that certification for the newly appointed investment officer.
Northeast Texas Community College (College)	Training	The College's investment officers did not obtain 10 hours of investment training within the last two consecutive years.
	Reviewing	The College's quarterly investment reports for fiscal year 2015 presented to the board of trustees were not signed by the investment officers.
Ranger College (College)	Reviewing	The College did not review or adopt a written instrument stating that it reviewed the investment policy or investment strategies in fiscal year 2015.

Sources: Compliance audit reports issued by **each entity's internal or external auditors**.

Definitions of Asset Classes

Table 9 provides the definitions of investment and deposit types.

Table 9

Definitions of Investment and Deposit Types	
Investment/Deposit Type	Definition
Annuity	A type of contract sold by insurance companies guaranteeing fixed or variable future payments.
Asset Backed Securities (ABS)	Securities backed by pools of assets such as credit card receivables, home equity loans, and auto loans, but typically excluding mortgages.
Balanced Mutual Funds	Mutual funds that expect to invest in a mix of equity and debt investments. (Categorize in the “Publicly Traded Equity and Similar” category if the fund’s target allocation is expected to exceed 50 percent equities. Otherwise, categorize in the “Publicly Traded Debt and Similar” category.) (See also Mutual Funds.)
Bank Deposits	Amounts reported in this category should include balances held in a financial institution such as a bank, savings bank, or credit union as “demand deposits” (which the customer can withdraw at any time without penalty) or “time deposits” (which might be subject to restrictions on immediate withdrawal). However, bank deposits do not include certificates of deposit. Although non-negotiable certificates of deposit are generally considered time deposits, these balances should be separately disclosed on the annual investment report. (See also Certificates of Deposit.)
Bankers’ Acceptances	A time draft drawn on a bank by a bank’s customer, ordering the bank to pay an amount at a future date, generally within a short time period. When accepted by the bank, it can be traded in secondary markets, usually as a money market instrument.
Cash Held at State Treasury	All deposit balances held by the Comptroller of Public Accounts in the State Treasury. Higher education institutions should not include funds invested in TexPool or TexPool Prime. Amounts managed by the Texas State Treasury Safekeeping Trust Company should be reported in the appropriate investment categories, and any uninvested cash held by the Trust Company should be reported as bank deposits.
Certificates of Deposit (CD)	Time deposits with a financial institution that may not be withdrawn prior to maturity without a penalty. “Negotiable CDs” are issued in large dollar amounts and are traded in secondary markets. Although some entities might report nonnegotiable CDs in their financial statements under the “Investments” category, they are considered deposits, whereas negotiable CDs represent investment securities. CDs are insured by the Federal Deposit Insurance Company. (Categorize nonnegotiable CDs separately from negotiable CDs on the annual investment report.)
Collateralized Mortgage Obligations (CMOs) - Agency or Private Label	CMOs consist of pools of mortgage pass-through securities or mortgage loans for which the cash flows of principal and interest payments are directed in a prescribed manner to different underlying classes of the CMOs. The different classes are referred to as “tranches,” with each tranche structured to have different expected risk, return, and maturity characteristics. “Agency” CMOs are guaranteed, or issued and guaranteed, by U.S. government agencies. “Private Label” CMOs are issued by, and are the sole obligation of, the private issuers, which might be financial institutions, subsidiaries of investment banks, or home builders. Certain tranches are generally prohibited by the Public Funds Investment Act (PFIA), including “Interest Only Strips (IOs),” “Principal Only Strips (POs),” and “Inverse Floaters.” The PFIA also does not authorize most investing entities to acquire CMOs that have a final stated maturity exceeding 10 years.
Collectibles	Rare items collected by investors, such as art, stamps, coins, antiques, and memorabilia.
Commercial Paper - A1/P1 (or equivalent)	Commercial paper is a type of short-term, unsecured obligation issued by banks, corporations, or other borrowers, usually issued at a discount and with maturities of 270 days or fewer. A1 and P1 denote the highest short-term rating categories used by Standard & Poors and Moody’s, respectively. (Lower rated commercial paper should be listed under “Other Commercial Paper - Lower Rated.”)
Commingled Fund	An external manager pools and invests the funds of several institutional investors. Securities are owned by the overall fund, and each investor owns a pro rata share of the fund. The U.S. Securities and Exchange Commission (SEC) does not oversee commingled funds. (Classification on the annual investment report should be based on the underlying assets in which the fund primarily invests, for example, publicly traded equities, publicly traded debt, or “other” investments.)

Definitions of Investment and Deposit Types

Investment/Deposit Type	Definition
Commodities	Includes investments in bulk goods such as grains; metals; foods; and energy products such as crude oil, heating oil, gasoline, and natural gas. Commodities are often traded using futures contracts; however, investing can also involve spot market trades or taking physical possession of the commodities.
Commonfund	Also known as “The Common Fund for Nonprofit Organizations,” this is a private, nonprofit organization that is exempt from taxation under Section 501(f), U.S. Internal Revenue Code of 1986 (Title 26, United States Code, Section 501(f)). Commonfund offers participating clients the ability to invest in a wide range of commingled investment funds, including fixed income, equity, and alternative assets.
Common Stock (publicly traded)	Also referred to as equities, or equity securities, common stock represents units of ownership in a publicly held corporation. Shareholders typically have rights to vote and to receive dividends. Claims of common stock holders are subordinate to claims of creditors, bond holders, and preferred stock holders.
Corporate Obligations (U.S. or foreign corporations)	Debt securities issued by U.S. or foreign corporations. Excludes debt issued by governmental entities (see Sovereign Debt) . (Group by credit rating category, or, if applicable, as “not rated.”)
Equity/Stock Mutual Funds	Mutual funds that invest primarily in stocks, although at times they might hold some fixed-income and money market securities. (See also Balanced Mutual Funds description.)
Equity Securities	Stock (as opposed to bonds). The term is often used to refer to “common stock” (see Common Stock definition); however “preferred stock” is also considered an equity security (see Preferred Stock definition).
Fixed Income/Bond Mutual Funds	Mutual funds that, by policy, invest in the fixed-income sector. (See also Mutual Funds.)
Guaranteed Investment Contracts (GICs)	GICs represent contracts issued by insurance companies that promise to pay a specified rate of interest on the invested capital over the life of the contract. GICs are sometimes referred to as “guaranteed insurance contracts.”
Hedge Funds	Hedge funds may be broadly defined as pooled funds that are not registered with the SEC; are typically available only to institutional investors or individuals with a high net worth; and use advanced trading strategies such as leverage, derivatives, short selling, and arbitrage.
Highly Rated Corporate Obligations	Based on the description in the PFI for “Authorized Investments: Institutions of Higher Education,” this category is limited to corporate debt obligations rated by a nationally recognized investment rating agency in one of its two highest long-term rating categories, without regard to gradations (e.g. + or -) within those categories. The two highest rating categories for Standard and Poor’s and Fitch Ratings are AAA and AA, while the two highest categories for Moody’s are Aaa and Aa.
High Yield Bonds	Corporate obligations that are considered below “investment grade” and are also referred to as “junk bonds” or “speculative grade.” Such corporate securities are rated BB or lower by Standard and Poor’s or Fitch Ratings and Ba or lower by Moody’s.
Market Value	In general, this equates to the “fair value” of an investment, as defined in Governmental Accounting Standards Board Statement No. 31 (GASB 31). A reporting entity that reports certain short-term, highly liquid debt instruments—such as commercial paper, bankers’ acceptances, and U.S. Treasury and agency obligations (“money market investments”)—on its balance sheet at “amortized cost” may report the same value on the annual investment report in the “Market Value” column for consistency.
Money Market Mutual Fund (or Money Market Fund)	An open-end mutual fund (registered with the SEC) that must comply with the SEC’s “Rule 2a-7,” which imposes certain restrictions, such as a requirement that the fund’s board must attempt to maintain a stable net asset value (NAV) per share or stable price per share, limits on the maximum maturity of any individual security in the fund’s portfolio, and limits on the maximum weighted average portfolio maturity and weighted average portfolio life. Money market funds typically attempt to maintain an NAV or a price of \$1.00 per share. (Higher education institutions should report the “market value” of their money market fund investments based on the fund’s share price.)
Mortgage Pass-throughs - Agency	Mortgage pass-throughs are securities created by pooling mortgages, for which investors receive a pro-rata share of payments of principal and interest on the pool of mortgages. Agency mortgage pass-throughs are guaranteed by a U.S. government agency or government sponsored enterprise (GSE).
Mortgage Pass-throughs - Private Label	Private label mortgage pass-throughs are issued by institutions such as subsidiaries of investment banks, financial institutions, and home builders. They are the obligation of the issuers and are not guaranteed by the U.S. government or any government-sponsored enterprise.

Definitions of Investment and Deposit Types

Investment/Deposit Type	Definition
Municipal Obligations	Debt (typically bonds) issued by states, cities, counties, or other government entities. Income on some municipal bonds is exempt from both federal and state income taxes, while, for other municipal bonds, the income is not exempt from federal taxation.
Mutual Funds	Similar to commingled funds, the funds of multiple investors are pooled by the external manager. The investors own shares of the fund but do not own the individual securities. The public, as well as institutional investors, can invest in mutual funds. In contrast to commingled funds, mutual funds are regulated by the SEC. (See also Money Market Funds, a subset of mutual funds that should be categorized separately.)
Not Rated (NR) Corporate Obligations	Issues that have not been rated by a major rating agency. Standard and Poor's uses NR to designate issues for which no rating was requested; there was insufficient information on which to assign a rating; or, by policy, it does not rate that particular obligation.
Other Commercial Paper - lower rated	Commercial paper rated below the highest short-term rating categories used by major rating agencies (that is, below A-1, P-1, or equivalent ratings).
Other Investment Grade Corporate Obligations	Corporate debt obligations that are not categorized as "Highly Rated Corporate Obligations" but, nevertheless, receive an "investment grade" rating from a nationally recognized investment rating agency. Ratings of A or BBB by Standard and Poor's or Fitch Ratings and A or Baa by Moody's are considered "investment grade."
Other Real Asset Investments	Real assets typically exist in physical form and are generally considered to include "hard assets" that are used to produce goods or services, in contrast to "financial assets," such as stocks and bonds, which represent a claim on the income provided by real assets. Examples of real assets include real estate, timber, commodities like oil and gas, and infrastructure. (Higher education institutions should categorize investments in real estate separately from their investments in "other real assets" if managed as distinct portfolios. See also Real Estate.)
Preferred Stock	A class of capital stock in a corporation distinct from common stock. Preferred stock generally carries no voting rights, pays a specified dividend, and has preference over common stock in the payment of dividends or in the event that corporate assets are liquidated. Although preferred stock has some features similar to bonds, it is classified as an "equity" investment.
Private Equity	Private equity funds are privately managed investment pools, typically organized as limited partnerships. They are managed by the fund's general partners who typically make long-term investments in private companies and who may take a controlling interest with the aim of increasing the value of those companies, often by helping to manage the companies. Private equity fund strategies include venture capital investments and leveraged buyouts, among others. (Higher education institutions that make direct investments in private companies, often as "co-investments" alongside a private equity fund in which they invest, also should categorize such investments as "Private Equity.")
Public Funds Investment Pool Created to Function as a Money Market Mutual Fund and Other Investment Pools	The PFIA describes the criteria for allowable investments in "investment pools," including those it describes as a "public funds investment pool created to function as a money market mutual fund." Those types of pools are typically also referred to as "local government investment pools" or "LGIPs." They often function like money market mutual funds (see discussions at "TexPool" and "Money Market Funds") and might be referred to as "2a7-like" pools, but they are not required to register with the SEC. Other investment pools might choose not to function like money market funds, and therefore might permit a floating NAV, longer overall or individual investment maturity, and higher potential investment risk and return. (Higher education institutions should separately categorize investments in (1) TexPool, (2) Other Public Funds Investment Pools Functioning as Money Market Mutual Funds, and (3) Other Investment Pools that do not operate as money market funds.)
Real Estate	Includes real estate held for investment directly or through investment vehicles such as private investment funds, which are limited partnerships that invest in real estate. Such investments are designed to produce high current income and/or capital gains through appreciation in the underlying real estate. (Does not include real estate not held for investment, such as campus buildings.)
Real Estate Investment Trusts (REITs)	REITs are companies that invest in real estate by investing directly in portfolios of various types of real estate properties and/or by making loans to building developers. Although generally they are publicly traded on major exchanges and available to all investors, some REITs are established as private investments, which can reduce the liquidity of such investments. (Private REITs should be categorized on the annual investment report as Real Estate in "Other Investments.")

Definitions of Investment and Deposit Types

Investment/Deposit Type	Definition
Repurchase Agreements (Repos)	Short-term investment agreements in which an investor buys securities, usually U.S. government securities, from a seller and the seller agrees to repurchase them at a later date for a slightly higher price that is negotiated between the parties. Such arrangements function as money market investments with either a fixed maturity date, often overnight, or an open term, in which they are callable at any time.
Securities Lending Collateral Reinvestments	Institutions that participate in securities lending programs often receive cash as collateral for their loaned investments . The cash is normally reinvested, typically by the entity's lending agent, in a separate account for the lender or as part of a collateral investment pool that commingles the cash collateral received by multiple lenders. The cash collateral is typically invested in investments having relatively low credit risk, and interest rate risk is reduced by maintaining a relatively short average portfolio maturity. (A higher education institution involved with securities lending should report the value for its share of any reinvested cash collateral in the same amount on its annual investment report and on its financial statements.)
Separately Managed Account	Securities in the external manager's portfolio are owned directly by the investing entity and are held by each investing entity's custodian bank . The investing entity can require the external manager to adhere to specific investment guidelines.
Short-term Investments	Includes all debt investments maturing within one year of the purchase date.
Short-term Mutual Funds (other than Money Market funds)	Mutual funds that specialize in short-term debt instruments, but that do not meet the strict criteria required to be called "money market" mutual funds . (If higher education institutions do not report non-money market, short-term fixed income mutual funds as fixed income mutual funds in the section for "Debt and Similar Investments Exceeding 1 Year Maturity," they should report them in the section for Short-term Investments and Deposits.)
Sovereign Debt (non-U.S.)	Debt securities issued or guaranteed by foreign governments.
TexPool (and TexPool Prime)	TexPool and TexPool Prime are local government investment pools administered by the Texas Treasury Safekeeping Trust Company at the Office of the Comptroller of Public Accounts. Both funds are operated according to the rules governing money market mutual funds (the SEC's "Rule 2a-7"), which require a policy to maintain a stable net asset value per share (both funds seek to maintain a \$1.00 NAV per share) and impose limitations on maximum maturities of the overall portfolio and any individual security. Unlike true mutual funds, local government investment pools (whether or not organized to operate as money market mutual funds) are not required to register with the SEC.
U.S. Government Agency Securities	Also called "Agency Securities" or "Agencies," they represent debt securities (1) issued or guaranteed by U.S. federal government agencies or (2) issued by GSEs. Debt securities issued or guaranteed by U.S. federal government agencies, like U.S. Treasury Securities, are backed by the full faith and credit of the U.S. government. However, debt securities issued by GSEs are not backed by similar U.S. government guarantees, and therefore they are considered to carry more credit risk than securities issued or guaranteed by federal government agencies.
U.S. Government Securities	Also called "U.S. Treasury Securities" or "Treasuries," U.S. government securities are negotiable debt obligations, such as treasury bills, treasury notes, and treasury bonds that are backed by the full faith and credit of the U.S. government.

Source: The explanation of terms used on the annual investment report (including deposits) is available on the State Auditor's Office's Web site at <http://www.sao.texas.gov/Resources/IntAud/HigherEdInvestReporting.html#3>.

Related State Auditor's Office Work

Related State Auditor's Office Work		
Number	Product Name	Release Date
14-039	A Report on State Agency, University, and Community College District Compliance with the Public Funds Investment Act and Investment Reporting Requirements	July 2014
12-035	A Report on State Agency, University, and Community College District Compliance with the Public Funds Investment Act and Investment Reporting Requirements	June 2012
10-027	A Review of State Agency, University, and Community College District Compliance with the Public Funds Investment Act and Investment Reporting Requirements	April 2010
08-023	A Review of State Agency, University, and Community College District Compliance with the Public Funds Investment Act and Investment Reporting Requirements	March 2008

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