



A Report on

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

May 2018
Report No. 18-029



A Report on

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

SAO Report No. 18-029
May 2018

Overall Conclusion

All agencies, most higher education institutions, and most 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 2017. Those entities had approximately \$87.2 billion² in investment holdings as of August 31, 2017. Therefore, it is important that those entities 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 most community colleges fully complied with higher education investment reporting requirements in Rider 5, page III-249, General Appropriations Act (84th Legislature), and **prescribed by the State Auditor's Office at <http://www.sao.texas.gov/InternalAudit/PublicFunds/>**.

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, the General Appropriations Act (84th 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/InternalAudit/PublicFunds/>. Additionally, those higher education institutions and community colleges are required to publish quarterly investment reports on their Web sites after each quarter.

Sources: The Act, the General Appropriations Act (84th 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 total investment holdings is the sum of the investments of the agencies, higher education institutions, and community colleges that are subject to the Act, as well as investments of the higher education institutions that are not subject to the Act. It excludes those entities' investments in the Texas Local Government Investment Pool (TexPool) and Texas Local Government Investment Pool Prime (TexPool Prime) to prevent counting those holdings twice. The sources for the investment amounts are the entities' annual investment reports and annual financial reports.

The following describes compliance by the type of entity for fiscal year 2017:

- Agencies. All of the 13³ Agencies reviewed submitted compliance audit reports that indicated they fully or substantially complied with the Act.
- Higher Education Institutions.
 - Compliance with the Act. Sixteen (94 percent) of the 17 higher education institutions subject to the Act submitted compliance audit reports that indicated they fully or substantially complied with the Act. Texas Woman's University was minimally compliant based on the compliance audit report it submitted in May 2018, after the **State Auditor's Office's extended deadline of March 20, 2018.**
 - 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-249, General Appropriations Act (84th Legislature), and as **prescribed by the State Auditor's Office.**
- Community Colleges.
 - Compliance with the Act. Forty-nine (98 percent) of the 50 community colleges subject to the Act submitted compliance audit reports that indicated they fully or substantially complied with the Act. Coastal Bend College submitted a compliance audit report that indicated it minimally complied with the Act.
 - Compliance with Higher Education Investment Reporting Requirements. Forty-eight (96 percent) of the 50 community colleges fully complied with the higher education investment reporting requirements in Rider 5, page III-249, General Appropriations Act (84th **Legislature) and as prescribed by the State Auditor's Office.** Two (4 percent) of the 50 community colleges were substantially compliant with the reporting requirements. Specifically, the governing bodies of Southwest Texas Junior College and Texas Southmost College did not review and approve the colleges' investment policies on an annual basis as required by the Act.
- University Systems Not Subject to the Act But Still Subject to the Higher Education Investment Reporting Requirements. 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 but are still subject to the higher education investment reporting requirements. Those four university systems fully complied with the higher education investment

³ The 13 agencies include 12 agencies subject to the Act and the Juvenile Justice Department, which is exempt from the Act but chose to submit a compliance audit report.

reporting requirements in Rider 5, page III-249, General Appropriations Act (84th Legislature), **and as prescribed by the State Auditor's Office.**

Some entities did not submit a **compliance audit report by the Act's** statutorily required due date of January 1, 2018. 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, 2017. However, after auditors contacted those entities and extended the due date for reporting to auditors until March 20, 2018, 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 report to the **State Auditor's Office by January 1, 2018.**
- Determine whether higher education institutions complied with Special Provisions Relating Only to State Agencies of Higher Education, page III-249, the General Appropriations Act (84th Legislature), and reporting **requirements as prescribed by the State Auditor's Office on its Web site.**

The scope of this project covered investment disclosures with due dates of December 31, 2017, and compliance audit reports with due dates of January 1, 2018. The State Auditor's Office performed their review of the reports from January 2018 through May 2018.

Contents

Detailed Results

Chapter 1	
All Agencies Submitted Compliance Audit Reports That Indicated They Fully or Substantially Complied with the Act	1
Chapter 2	
Most Higher Education Institutions Subject to the Act 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 of the Community Colleges Submitted Compliance Audit Reports That Indicated They Fully or Substantially Complied with the Act, and Most 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	10
Chapter 5	
Summary of Investments for Agencies, Higher Education Institutions, and Community Colleges	11

Appendices

Appendix 1	
Objectives, Scope, and Methodology	22
Appendix 2	
Instances of Noncompliance with the Act	25
Appendix 3	
Definitions of Asset Classes	33
Appendix 4	
Related State Auditor’s Office Work	37

Detailed Results

Chapter 1

All 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 with investment holdings to implement certain investment-related requirements in the following areas: policies, contracting, training, reporting, reviewing, and auditing. The Act contains multiple requirements for each of those areas, and the agencies’ internal or external auditors must test compliance with those requirements at least every two years. The agencies must report the results of those audits 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 13 agencies⁴ reviewed reported investments totaling approximately \$24.2 billion as of August 31, 2017 (see Table 7 in Chapter 5 for more information).

Four of those 13 agencies submitted compliance audit reports that indicated they fully complied with the Act in fiscal year 2017. Table 1 lists the agencies that fully complied with the Act in fiscal year 2017.

Table 1

Agencies That Fully Complied with the Act in Fiscal Year 2017
Board of Law Examiners
Department of Housing and Community Affairs
Texas State Affordable Housing Corporation
Treasury Safekeeping Trust Company (TexPool and TexPool Prime)

⁴ The 13 agencies include 12 agencies subject to the Act and the Juvenile Justice Department, which is exempt from the Act but chose to submit a compliance audit report.

Nine of those 13 agencies submitted compliance audit reports that indicated they substantially complied with the Act in fiscal year 2017 (see Appendix 2 for additional details regarding those agencies' compliance). Table 2 lists the agencies that substantially complied with the Act in fiscal year 2017.

Table 2

Agencies That Substantially Complied with the Act in Fiscal Year 2017
Department of Criminal Justice
Department of Transportation (Central Texas Turnpike System, Grand Parkway Transportation Corporation, and Interstate 35E toll managed lane project)
Juvenile Justice Department
Real Estate Commission
School for the Blind and Visually Impaired
State Bar of Texas
Texas Access to Justice Foundation (Supreme Court)
Trusteed Programs Within the Office of the Governor
Water Development Board

Most Higher Education Institutions Subject to the Act 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

In addition to state agencies, the Public Funds Investment Act (Act) in Texas Government Code, Chapter 2256, requires certain higher education institutions with investment holdings to implement certain investment-related requirements in the following areas: policies, contracting, training, reporting, reviewing, and auditing. The Act contains multiple requirements for each of those areas, and the higher education institutions' internal or external auditors must test compliance with those requirements at least every two years. The higher education institutions must report the results of those audits 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.

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.

In addition, the State Auditor's Office reviewed the investment reports and disclosures on the higher education institutions' Web sites to determine compliance with Rider 5, page III-249, the General Appropriations Act (84th Legislature), and as prescribed by the State Auditor's Office requirements.

Higher Education Institutions' Compliance with the Act

The 17 higher education institutions subject to the Act reported investments totaling almost \$2.6 billion as of August 31, 2017⁵ (see Table 8 in Chapter 5 for more information).

Five of those 17 higher education institutions submitted compliance audit reports that indicated they fully complied with the Act in fiscal year 2017 (see text box for more information about the levels of compliance). Table 3 on the next page lists the higher education institutions that fully complied with the Act in fiscal year 2017.

⁵ Total higher education institutions' investments reported in this chapter excluded cash and included \$828,237,605 of TexPool and TexPool Prime investments. Total higher education institution's investments excluding cash, TexPool, and TexPool Prime were \$1,771,259,376. The agencies' total investments reported in Chapter 1 included the higher education institutions' TexPool and TexPool Prime investments.

Table 3

Higher Education Institutions That Fully Complied with the Act in Fiscal Year 2017
Lamar State College—Orange
Stephen F. Austin State University
Sul Ross State University
Texas State University
Texas State University System

Eleven of those 17 higher education institutions submitted compliance audit reports that indicated they substantially complied with the Act in fiscal year 2017 (see Appendix 2 for additional details regarding those higher education institutions' compliance). Table 4 lists the higher education institutions that substantially complied with the Act in fiscal year 2017.

Table 4

Higher Education Institutions That Substantially Complied with the Act in Fiscal Year 2017
Lamar Institute of Technology
Lamar State College—Port Arthur
Lamar University
Midwestern State University
Sam Houston State University
Texas Southern University
Texas State Technical College
University of North Texas
University of North Texas at Dallas
University of North Texas Health Science Center
University of North Texas System

One of those 17 higher education institutions, Texas Woman's University, was minimally compliant for fiscal year 2017 based on the compliance audit report that the Texas Woman's University submitted in May 2018, after the State Auditor's Office's extended deadline of March 20, 2018 (see Appendix 2 for additional details regarding that higher education institution's compliance).

Higher Education Institutions' Compliance with Higher Education Investment Reporting Requirements

The State Auditor's Office reviewed the higher education institutions' Web sites for the required investment disclosures and made determinations on the level of compliance with the higher education investment reporting requirements (see text box for information about the levels of compliance).

All 17 higher education institutions fully complied with the higher education investment reporting requirements in Rider 5, page III-249, the General Appropriations Act (84th Legislature), and as prescribed by the State Auditor's Office. Those requirements included the following:

- 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.⁶
 - ♦ Associations with independent endowments or foundations.
 - ♦ Current investment policies.

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.

⁶ 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 of the Community Colleges Submitted Compliance Audit Reports That Indicated They Fully or Substantially Complied with the Act, and Most of Them Fully Complied with the Higher Education Investment Reporting Requirements

The Public Funds Investment Act (Act) in Texas Government Code, Chapter 2256, requires certain community colleges with investment holdings to implement certain investment-related requirements in the following areas: policies, contracting, training, reporting, reviewing, and auditing. The Act contains multiple requirements for each of those areas, and the community colleges' internal or external auditors must test compliance with those requirements at least every two years. The community colleges must report the results of those audits 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.

In addition, the State Auditor's Office reviewed the investment reports and disclosures on the community colleges' Web sites to determine compliance with Rider 5, page III-249, the General Appropriations Act (84th Legislature), and as prescribed by the State Auditor's Office.

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.

Community Colleges' Compliance with the Act

The 50 community colleges reported investments totaling approximately \$3.2 billion as of August 31, 2017⁷ (see Table 9 in Chapter 5 for more information).

Forty-seven community colleges submitted compliance audit reports that indicated they fully complied with the Act in fiscal year 2017 (see text box for more information about the levels of compliance).

Table 5 on the next page lists the community colleges that fully complied with the Act in fiscal year 2017.

⁷ Total community college's investments reported in this chapter excluded cash and included \$490,236,575 of TexPool and TexPool Prime investments. Total community college's investments excluding cash, TexPool, and TexPool Prime were \$2,749,327,840. The agencies' total investments reported in Chapter 1 included the community colleges' TexPool and TexPool Prime investments.

Table 5

Community Colleges That Fully Complied with the Act in Fiscal Year 2017
Alamo Community College
Alvin Community College
Amarillo College
Angelina College
Austin Community College
Blinn College
Brazosport College
Central Texas College
Cisco College
College of the Mainland
Collin College
Dallas County Community College
Del Mar College
El Paso Community College
Frank Phillips College
Galveston College
Grayson College
Hill College
Houston Community College
Howard College
Kilgore College
Laredo Community College
Lee College
Lone Star College
McLennan Community College
Midland College
Navarro College
North Central Texas College
Northeast Texas Community College
Odessa College
Panola College
Paris Junior College
Ranger College
San Jacinto College
South Plains College
South Texas College
Southwest Texas Junior College
Temple College
Texarkana College

Community Colleges That Fully Complied with the Act in Fiscal Year 2017
Texas Southmost College
Trinity Valley Community College
Tyler Junior College
Vernon College
Victoria College
Weatherford College of the Parker County Junior College District
Western Texas College
Wharton County Junior College

Two community colleges submitted compliance audit reports that indicated they substantially complied with the Act in fiscal year 2017 (see Appendix 2 for additional details regarding those community colleges' compliance). Table 6 lists the community colleges that substantially complied with the Act in fiscal year 2017.

Table 6

Community Colleges That Substantially Complied with the Act in Fiscal Year 2017
Clarendon College
Tarrant County College District

Coastal Bend College submitted a compliance audit report that indicated it minimally complied with the Act in fiscal year 2017 (see Appendix 2 for additional details regarding that community colleges' compliance).

Community Colleges' Compliance with Higher Education Investment Reporting Requirements

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.

The State Auditor's Office reviewed the community colleges' Web sites for the required investment disclosures and made determinations on the level of compliance with the higher education investment reporting requirements (see text box for information about the levels of compliance).

Forty-eight of 50 community colleges fully complied with the higher education investment reporting requirements in Rider 5, and as prescribed by the State Auditor's Office (see information on page 5 regarding those requirements).

Two of 50 of the community colleges substantially complied with the higher education investment reporting requirements. Specifically, Southwest Texas Junior College's and Texas Southmost College's investment policies were not reviewed and approved by their governing bodies on an annual basis as required by the Act and submitted to the State Auditor's Office by December 31, 2017, as required by Rider 5. For the purposes of this report, the State Auditor's Office contacted entities that had not met this requirement, and when reviewing for compliance with this requirement, considered any changes that the entities made by March 20, 2018. Southwest Texas Junior College's governing body reviewed and approved the college's investment policies on April 4, 2018, after the State Auditor's Office's extended deadline of March 20, 2018. Texas Southmost College's governing body last reviewed and approved the college's investment policies in October 2016; it asserted that the policies would be reviewed and approved at the May 2018 meeting of the college's Board of Trustees.

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 in Rider 5, page III-249, General Appropriations Act (84th Legislature), and as prescribed by the State Auditor's Office (see page 5 of this report for more information about those requirements) but are not subject to the Act in Texas Government Code, Chapter 2256, which requires a compliance audit. 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.⁸

The Texas A&M University System, the Texas Tech University System, the University of Houston System, and The University of Texas System were not subject to the Act in fiscal year 2017 based on the criteria discussed above. For fiscal year 2017, those four university systems fully complied with the higher education investment reporting requirements in Rider 5, 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 \$59.0 billion as of August 31, 2017⁹ (see Table 10 in Chapter 5 for more information).

⁸ The 85th Legislature updated this exemption from the Act to higher education institutions having total endowments of at least \$150 million in book value on September 1, 2017. The State Auditor's Office updated its Web site with the new exemption, which is effective starting with fiscal year 2018 reporting.

⁹ Total investments reported in this chapter for higher education institutions not subject to the Act excluded cash and included \$501,308,883 of TexPool and TexPool Prime investments. Total investments excluding cash, TexPool, and TexPool Prime were \$58,534,543,465. The agencies' total investments reported in Chapter 1 included higher education institutions' TexPool and TexPool Prime investments.

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, 2017. 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:

- Agencies that are subject to the Act had 6.44 percent of their portfolios invested in “equity and other nontraditional investments,”¹⁰ and their portfolios included no derivative investment holdings as of August 31, 2017.
- Higher education institutions that are subject to the Act had 7.72 percent of their portfolios invested in “other nontraditional investments,” and their portfolios included only \$3,130 in derivative investment holdings as of August 31, 2017.
- Community colleges that are subject to the Act had 0.51 percent of their portfolios invested in “other nontraditional investments,” and their portfolios included no derivative investment holdings as of August 31, 2017.
- Higher education institutions that are not subject to the Act had \$172,092,302 in derivative investment holdings as of August 31, 2017, and 55.33 percent of their portfolios invested in “other nontraditional investments.”

Investments at Agencies Subject to the Act

Table 7 on the next page lists the total investments as of August 31, 2017, reported by agencies subject to the Act.

¹⁰ Nontraditional investments may include any of the following: real estate; real asset investments; private equity; commodities; hedge funds; guaranteed investment contracts; derivatives; annuities; managed futures; collective endowment funds; oil, gas, and mineral properties; coins and jewelry; alternative asset commingled funds; cash value life insurance; charitable remainder unitrusts; notes receivable; warrants; partnerships; or other miscellaneous investments.

Table 7

Total Investments for Agencies That Are Subject to the Act ^a	
Agency	Market Value of Investments as of August 31, 2017
Board of Law Examiners	\$ 727,293
Department of Criminal Justice ^b	28,957,711
Department of Housing and Community Affairs	765,018,774
Department of Transportation ^c	484,906,000
Juvenile Justice Department ^d	2,375,000
Real Estate Commission	22,635,606
School for the Blind and Visually Impaired	821,392
State Bar of Texas ^e	43,509,649
Texas Access to Justice Foundation (Supreme Court) ^f	44,137,644
Texas State Affordable Housing Corporation	57,087,653
Treasury Safekeeping Trust Company (TexPool and TexPool Prime) ^g	20,144,987,770
Trusted Programs Within the Office of the Governor	8,846,859
Water Development Board	2,552,520,237
Total	\$ 24,156,531,588

^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 \$3,707,682 in TexPool and TexPool Prime to avoid duplication in the overall total of investments.

^c The Department of Transportation's **investments include investments for the** Central Texas Turnpike System, Grand Parkway Transportation Corporation, and Interstate-35E toll managed lane project. Prior to fiscal year 2017, the Department of Transportation's **compliance audit only included** investments for the Central Texas Turnpike System. Excludes \$689,825,000 in TexPool and TexPool Prime to avoid duplication in the overall total of investments.

^d The Juvenile Justice Department is exempt from the Act; however, it chose to submit a compliance audit report and was therefore included in the review of investments.

^e Data is as of May 31, 2017, **which is the State Bar of Texas's fiscal year end.**

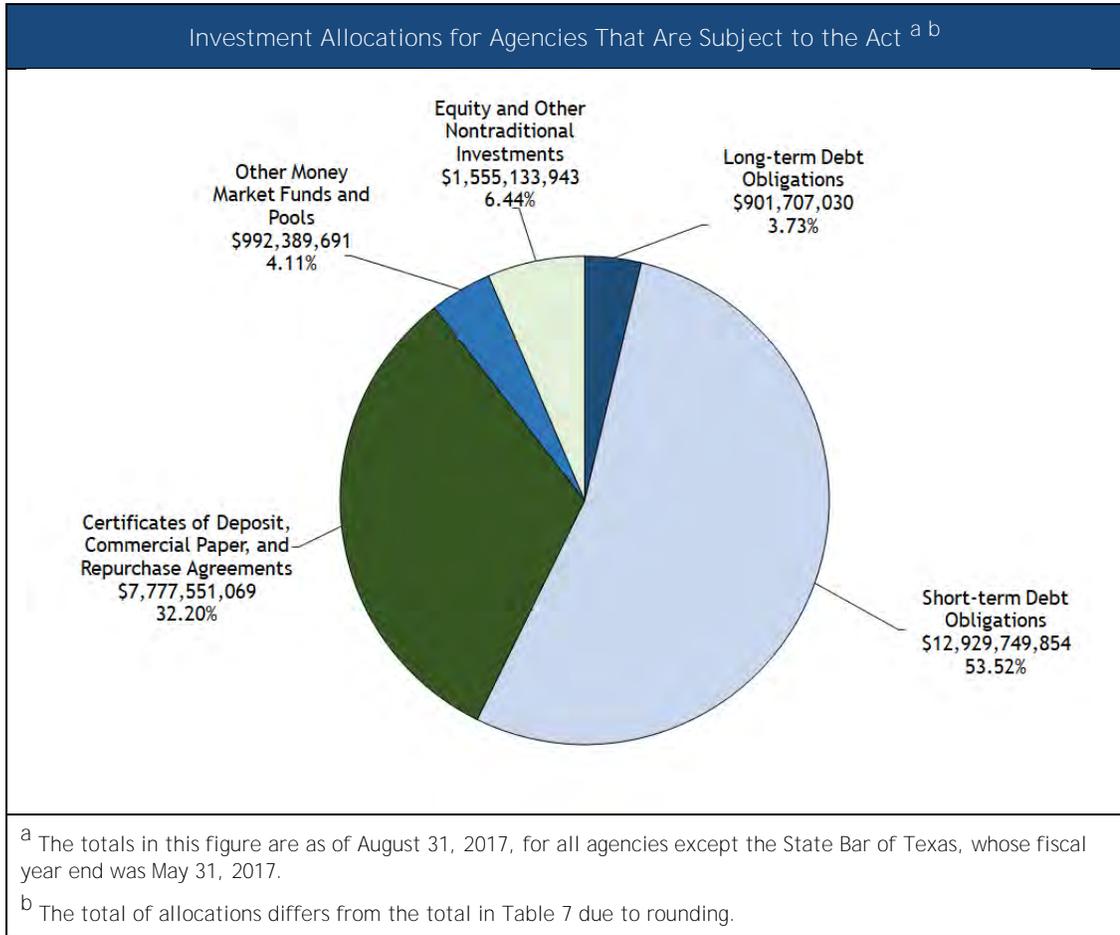
^f Excludes \$2,017,216 in TexPool and TexPool Prime to avoid duplication in the overall total of investments.

^g Includes \$16,033,979,137 TexPool investments and \$4,111,008,633 TexPool Prime investments.

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

Figure 1 shows the agency investment allocations as of August 31, 2017 (see Appendix 3 for definitions of specific asset classes).

Figure 1



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

Investments at Higher Education Institutions That Are Subject to the Act

Table 8 lists the total investments as of August 31, 2017, reported by higher education institutions that are subject to the Act.

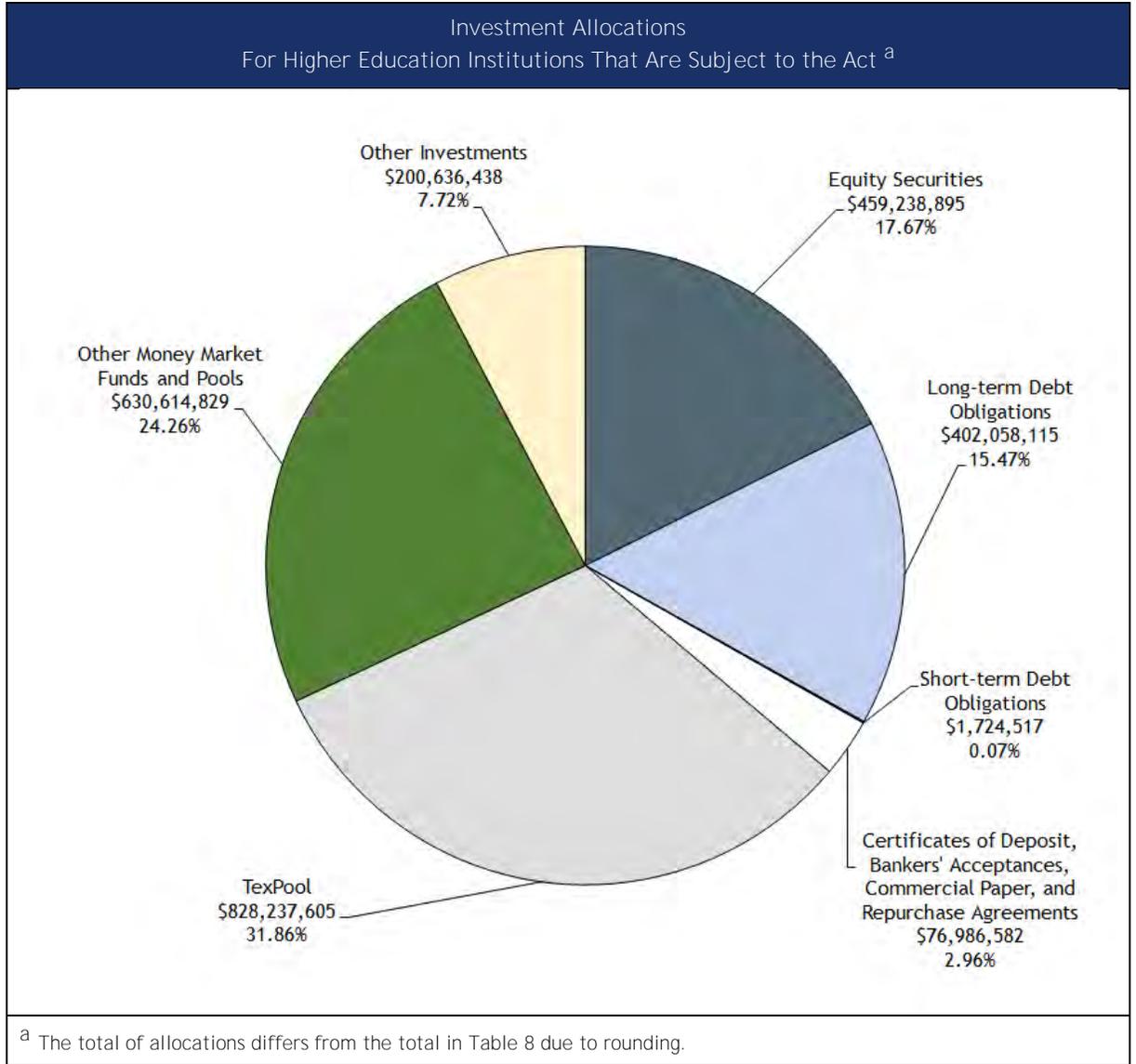
Table 8

Total Investments for Higher Education Institutions That Are Subject to the Act ^{a b}	
Higher Education Institution	Market Value of Investments as of August 31, 2017
Lamar Institute of Technology	\$ 7,224,688
Lamar State College—Orange	26,173,548
Lamar State College—Port Arthur	6,721,572
Lamar University	137,882,846
Midwestern State University	116,501,261
Sam Houston State University	241,945,964
Stephen F. Austin State University	128,497,975
Sul Ross State University	44,752,170
Texas Southern University	131,804,701
Texas State Technical College	28,734,165
Texas State University	657,694,575
Texas State University System	9,501,252
Texas Woman's University	379,662,265
University of North Texas	273,556,353
University of North Texas at Dallas	13,363,649
University of North Texas Health Science Center	121,929,566
University of North Texas System	273,550,431
Total	\$ 2,599,496,981
^a Amounts do not include cash.	
^b Amounts include \$828,237,605 of TexPool and TexPool Prime investments. Total investments excluding cash, TexPool, and TexPool Prime were \$1,771,259,376.	

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

Figure 2 shows the investment allocations as of August 31, 2017, 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 9 lists the total investments as of August 31, 2017, reported by community colleges that are subject to the Act.

Table 9

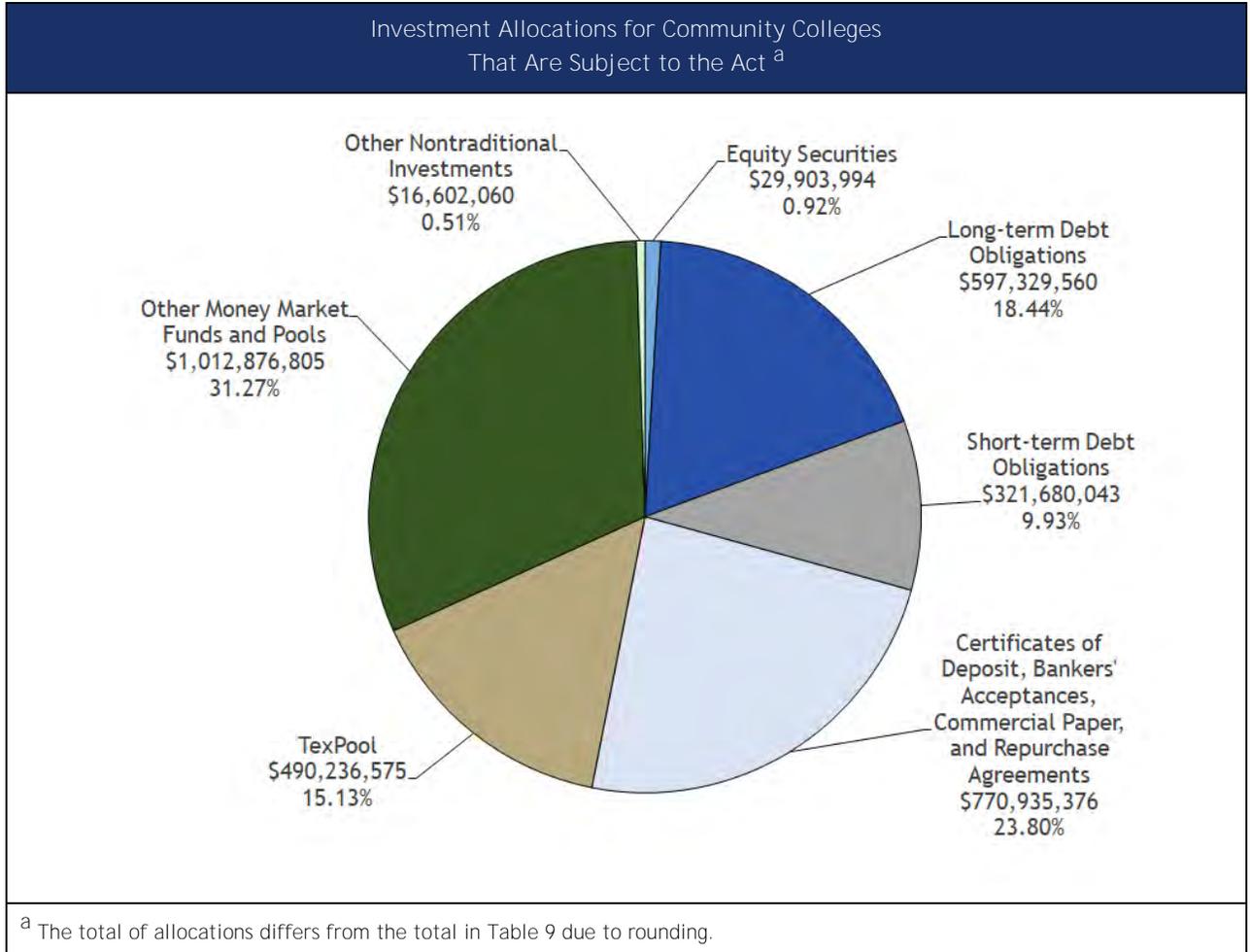
Total Community College Investments ^{a b}	
Community College	Market Value of Investments as of August 31, 2017
Alamo Community College	\$ 203,718,520
Alvin Community College	7,700,000
Amarillo College	40,860,062
Angelina College	7,208,271
Austin Community College	188,813,404
Blinn College	91,940,352
Brazosport College	14,916,199
Central Texas College	128,507,158
Cisco College	1,796,724
Clarendon College	4,794,623
Coastal Bend College	4,022,398
College of the Mainland	17,492,976
Collin College	260,281,936
Dallas County Community College	380,045,748
Del Mar College	111,020,043
El Paso Community College	223,426,529
Frank Phillips College	4,000
Galveston College	16,263,870
Grayson College	14,841,849
Hill College	5,433,958
Houston Community College	282,483,309
Howard College	17,641,885
Kilgore College	18,547,003
Laredo Community College	0
Lee College	9,173,710
Lone Star College	294,951,417
McLennan Community College	13,169,568
Midland College	35,060,764
Navarro College	2,225,000
North Central Texas College	19,389,071
Northeast Texas Community College	4,892,183
Odessa College	24,134,894
Panola College	21,135,611

Total Community College Investments ^{a b}	
Community College	Market Value of Investments as of August 31, 2017
Paris Junior College	11,000,000
Ranger College	0
San Jacinto College	181,546,933
South Plains College	17,863,459
South Texas College	161,648,926
Southwest Texas Junior College	4,729,263
Tarrant County College District	284,695,617
Temple College	22,937,929
Texarkana College	7,152,305
Texas Southmost College	145,720
Trinity Valley Community College	6,086,934
Tyler Junior College	8,228,609
Vernon College	7,870,000
Victoria College	450
Weatherford College of the Parker County Junior College District	8,766,953
Western Texas College	4,766,812
Wharton County Junior College	46,231,470
Total	\$ 3,239,564,415
^a Amounts do not include cash. ^b Amounts include \$490,236,575 of TexPool and TexPool Prime investments. Total investments excluding cash, TexPool, and TexPool Prime were \$2,749,327,840.	

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

Figure 3 shows the community college investment allocations as of August 31, 2017.

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 10 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.

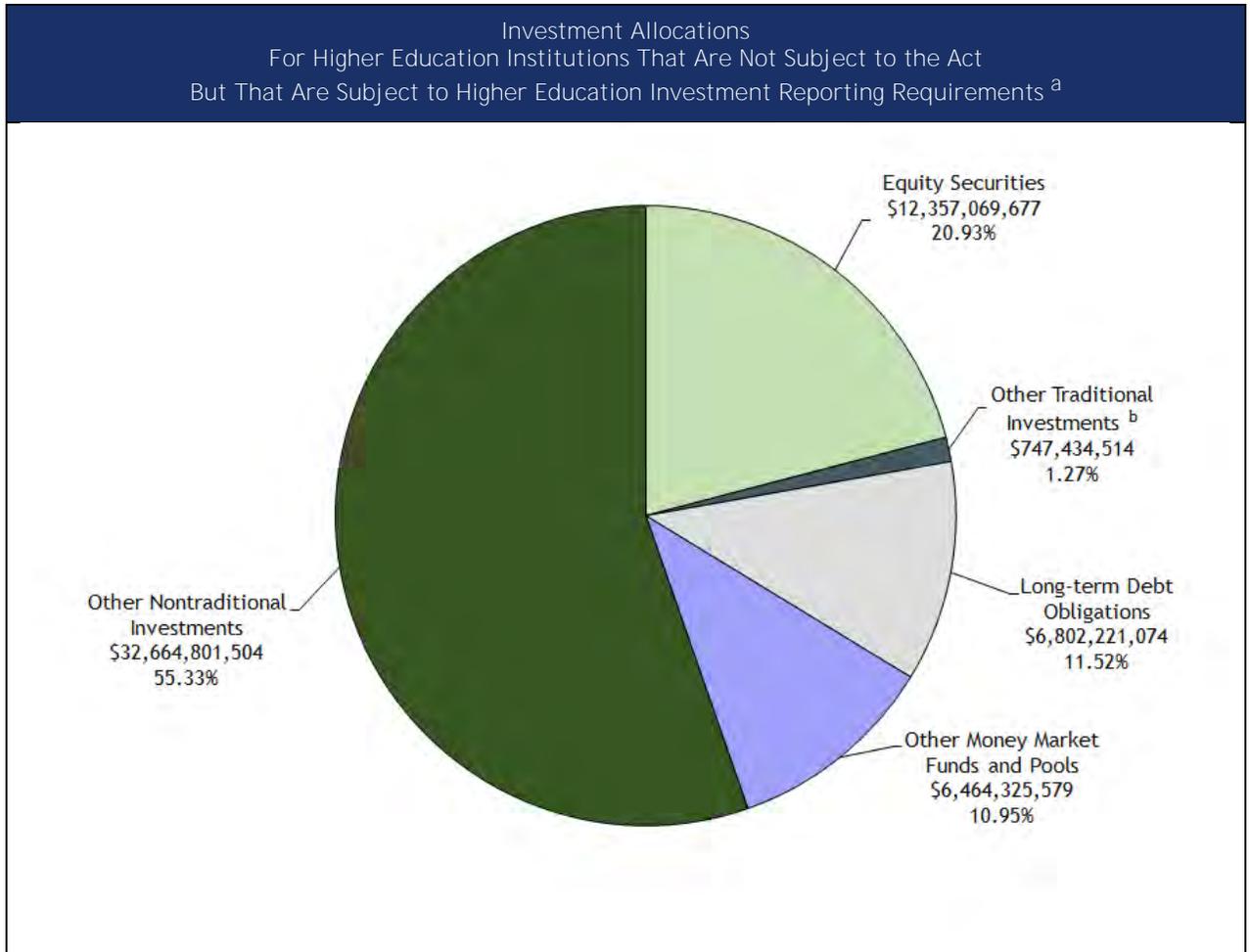
Table 10

Total Investments for Higher Education Institutions That Are Not Subject to the Act But That Are Subject to Higher Education Investment Reporting Requirements ^{a b}	
Higher Education Institution	Market Value of Investments as of August 31, 2017
Texas A&M University System	\$ 5,591,484,675
Texas Tech University System	2,632,386,846
University of Houston System	1,610,637,073
The University of Texas System	49,201,343,754
Total	\$ 59,035,852,348
^a Amounts do not include cash. ^b Amounts include \$501,308,883 of TexPool and TexPool Prime investments. Total investments excluding cash, TexPool, and TexPool Prime were \$58,534,543,465.	

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

Figure 4 shows the investment allocations as of August 31, 2017, for higher education institutions that are not subject to the Act but that are subject to higher education investment reporting requirements.

Figure 4



^a The total of allocations differs from the total in Table 10 due to rounding.

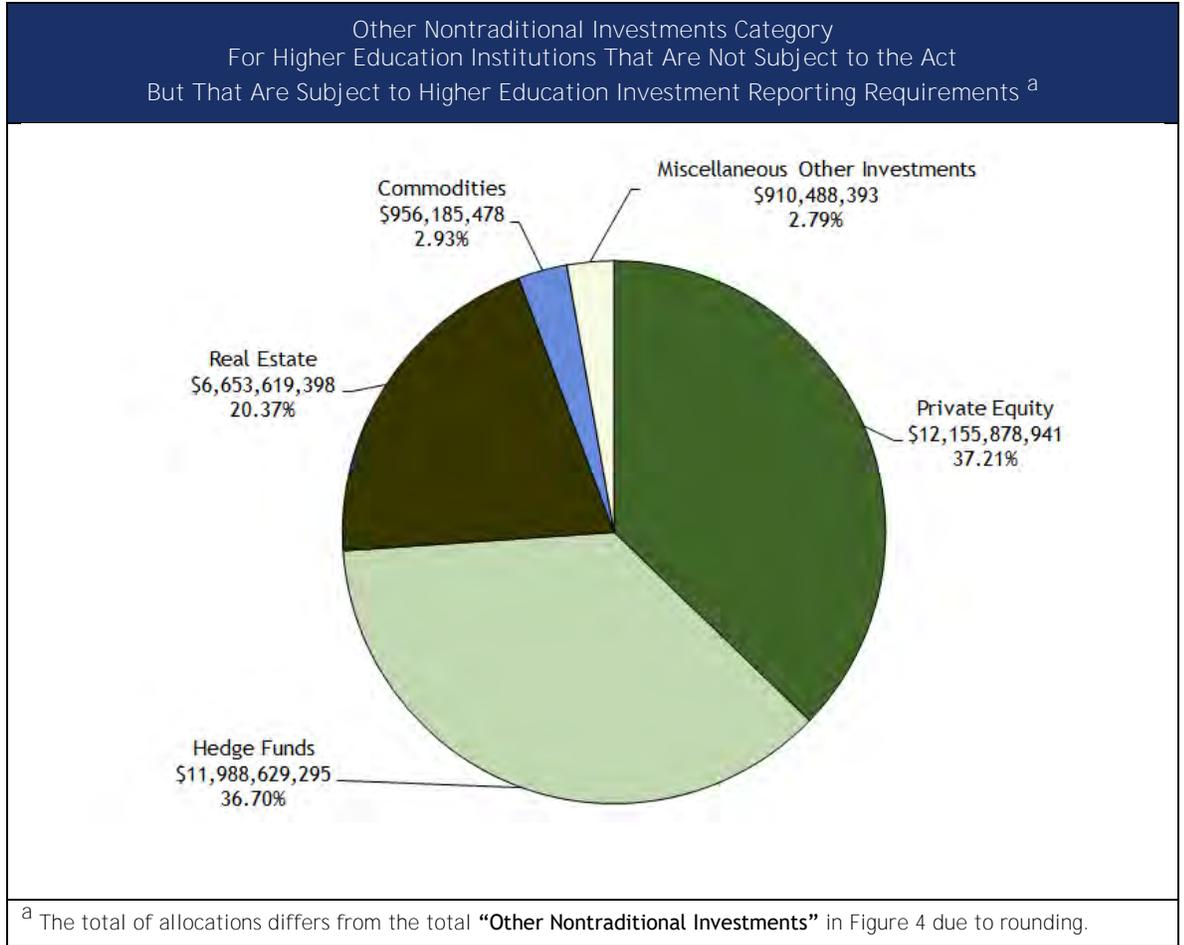
^b “Other Traditional Investments” includes TexPool, short-term debt obligations, certificates of deposit, bankers' acceptances, commercial paper, and repurchase agreements.

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

As shown in Figure 4, “other nontraditional investments” represented more than 55 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 55.33 percent shown in Figure 4 on the previous page.

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 report to the State Auditor’s Office by January 1, 2018.
- Determine whether higher education institutions complied with Special Provisions Relating Only to State Agencies of Higher Education, page III-249, the General Appropriations Act (84th Legislature), and reporting requirements as prescribed by the State Auditor’s Office on its Web site.

Scope

The scope of this project covered investment disclosures with due dates of December 31, 2017, and compliance audit reports with due dates of January 1, 2018. The State Auditor’s Office performed reviews of the reports from January 2018 through May 2018.

Auditors considered information provided through March 20, 2018, for agencies, higher education institutions, and community colleges when determining their level of compliance with the audit and higher education investment requirements. Although Texas Woman’s University submitted its compliance audit report on May 9, 2018, which was after the State Auditor’s Office’s extended deadline of March 20, 2018, auditors considered that report in reviewing compliance.

Methodology

The project methodology included (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 and 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 and 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, 2017, 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, Section 2256), effective through August 31, 2017.
- Higher education investment reporting requirements mandated by Rider 5, page III-249, General Appropriations Act (84th Legislature), and prescribed by the State Auditor's Office on its Web site at <http://www.sao.texas.gov/InternalAudit/PublicFunds/>.

Project Information

Project fieldwork was conducted from January 2018 through May 2018. 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:

- Rachel Lynne Goldman, CPA (Project Manager)
- Rachel Berryhill
- George D. Eure, CPA (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

Instances of Noncompliance with the Act

Tables 11 through 13 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 Funds Investment Act (Act).

Table 11

Agencies That Were Not Fully Compliant with the Act (From Compliance Audit Reports for the Reporting Period Ending August 31, 2017)		
Agency	Area of Noncompliance	Internal or External Auditor Findings ^a
Agencies That Were Substantially Compliant with the Act		
Department of Criminal Justice ^b (Department)	Training	<i>We noted a minor issue with the approval process for training of the investment officer at the Windham School District and communicated this issue to management.</i>
Department of Transportation (Central Texas Turnpike System, Grand Parkway Transportation Corporation, and Interstate 35E toll managed lane project) (Department)	Training Policies	<i>Complete documentation to support timely completion of required training and one annual review of the Grand Parkway Transportation Corporation's (GPTC) investment policy was not available to confirm compliance with the Public Funds Investment Act (PFIA).</i>
Juvenile Justice Department (Department) ^c	Reporting	<i>The investment officer should provide a biennial report on the PFIA to the Board.</i>
	Policies	<i>The Education Assistance Manual should be updated to reflect the program objective(s) and procedures for providing assistance to approved participants in the program.</i>
	Reviewing	<i>Monitoring of trust fund transactions can be enhanced to ensure proper approval as well as timely recording of transactions.</i>
	Reviewing	<i>User access controls to departmental information folders and records can be strengthened to promote information data security.</i>
Real Estate Commission (TREC)	Reporting	<i>TREC is in compliance with Section 2256.007, except for providing the biennial report to the Commission and Board regarding Subchapter A, Chapter 2256.</i>
School for the Blind and Visually Impaired (School)	Training	<i>Investment Officer training needs improvement in documentation retention and assurance that training requirements are consistently met.</i>
State Bar of Texas (SBOT)	Reporting	<i>SBOT is in compliance with Section 2256.007, except for providing the biennial report regarding Subchapter A, Chapter 2256, to the Commission and Board. Management took immediate action to address this issue and is now in compliance with Subchapter A.</i>
	Policies	<i>Additionally, SBOT's investment policy included in the State Bar Board Policy Manual - September 2017, Section 3.05.06 (D), is not aligned with PFIA Section 2256.007 (a) which requires training to be completed within six months of Board members and investment officers taking office or assuming investment duties.</i>
Texas Access to Justice Foundation	Reviewing	<i>We noted that cash deposits in financial institutions were not fully FDIC insured as of the following months ended:</i>

Agencies That Were Not Fully Compliant with the Act
(From Compliance Audit Reports for the Reporting Period Ending August 31, 2017)

Agency	Area of Noncompliance	Internal or External Auditor Findings ^a															
(Foundation)		<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Date</u></th> <th style="text-align: right;"><u>Total Deposits</u></th> <th style="text-align: right;"><u>Deposits in excess of FDIC coverage</u></th> </tr> </thead> <tbody> <tr> <td>9/30/15</td> <td style="text-align: right;">\$250,313</td> <td style="text-align: right;">\$313</td> </tr> <tr> <td>11/30/15</td> <td style="text-align: right;">\$250,250</td> <td style="text-align: right;">\$250</td> </tr> <tr> <td>5/31/16</td> <td style="text-align: right;">\$250,250</td> <td style="text-align: right;">\$250</td> </tr> <tr> <td>6/30/17</td> <td style="text-align: right;">\$269,362</td> <td style="text-align: right;">\$19,362</td> </tr> </tbody> </table>	<u>Date</u>	<u>Total Deposits</u>	<u>Deposits in excess of FDIC coverage</u>	9/30/15	\$250,313	\$313	11/30/15	\$250,250	\$250	5/31/16	\$250,250	\$250	6/30/17	\$269,362	\$19,362
	<u>Date</u>	<u>Total Deposits</u>	<u>Deposits in excess of FDIC coverage</u>														
	9/30/15	\$250,313	\$313														
	11/30/15	\$250,250	\$250														
	5/31/16	\$250,250	\$250														
6/30/17	\$269,362	\$19,362															
Reporting	<p>We noted the investment report for the quarter ended 31 March 2016 was not presented to the Board by the prescribed deadline. It was submitted to the Board at the 20 August 2016 Board Meeting.</p>																
Trusted Programs Within the Office of the Governor (Office)	Policies Reporting	<p>The financial information of the Texas Economic Development Corporation (TxEDC) was presented in the Office's FY 2016 and FY 2017 AFRs.</p> <p>However, TXEDC believes that its funds are not subject to the Public Funds Investment Act, that it is not a "component unit" of the Office, and, therefore, its financial information should not be presented in the Office's AFR(s). Nonetheless, TxEDC was responsive to this audit and provided documentation for the purpose of demonstrating sound financial controls instituted by TxEDC's governing body, which includes the adoption of a written investment policy and the independent audit of the corporation's annual financial statements. The documentation delivered does appear to demonstrate reasonable fiscal oversight by TxEDC's governing body.</p> <p>However, the documentation does not describe controls that precisely correspond with the training requirements established in the Act. TxEDC argues that the expertise of its board members and treasurer exceed those requirements. In addition, financial reporting to TxEDC's governing body could not be assessed because TxEDC considers that information along with the information provided (responsive to this audit) to be confidential.</p>															
	Policies	<p>The Act directs the governing bodies of investing entities to review investment policy and investment strategies annually. While the records collected by the Office from these five entities do evidence review, they do not contain "annual" review by three of the five governing bodies (the State Agency Council, the Beacon State Fund, and the Film Texas Fund). It should be noted that the investment "types" employed by these component units throughout the period under review comply with the Act.</p> <p>TXEDC's response also did evidence review of its investment policy, but similarly did not evidence an "annual" review.</p>															
	Reporting	<p>The prescribed quarterly financial reports were developed for the Texas Disaster Relief Fund, the Beacon State Fund, the State Agency Council, the Film Texas Fund, and the Texas Governor's Mansion Administration for the period under review. However, no record was developed or retained of their delivery to their respective governing bodies, nor of governing body receipt of those reports. During the course of this audit, the Office took steps to clearly document that the reporting requirements of the Act were met.</p>															
Water Development Board (Board)	Reporting	<p>Quarterly investment reports were not presented to the Board within a reasonable time after the end of the period as required by Section 2256.023(c).</p>															

Agencies That Were Not Fully Compliant with the Act
(From Compliance Audit Reports for the Reporting Period Ending August 31, 2017)

Agency	Area of Noncompliance	Internal or External Auditor Findings ^a
<p>^a The findings presented are direct excerpts from the internal or external auditor reports.</p> <p>^b The Windham School District, which provides appropriate educational programs to meet the needs of the eligible offender population, is a blended component unit of the Department of Criminal Justice.</p> <p>^c The Department is exempt from the Act requirements; however, it voluntarily submitted a compliance audit report, which the State Auditor's Office included in this review.</p>		

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

Table 12

Higher Education Institutions That Were Not Fully Compliant with the Act (From Compliance Audit Reports for the Reporting Period Ending August 31, 2017)		
Higher Education Institution	Area of Noncompliance	Internal or External Auditor Compliance Audit Findings ^a
Higher Education Institution That Was Minimally Compliant with the Act		
Texas Woman's University (TWU)	Training	<i>It was determined that a member of the Board of Regents (Student Regent) who is a non-voting member of the board did not attend a training session relating to responsibilities under Sec. 2256.007. In addition, the Interim Vice President for Finance (IVPFA) did not complete investment training during the biennium as required by institutional policy. The IVPFA was scheduled to attend training, however, due to a last minute request to attend a legislative session, the IVPFA was unable to attend training as initially planned. Additionally, during the 85th Legislative Session, changes were made to the Public Funds Investment Act (PFIA). The changes were effective as of June 2017 and appear to only impact investments made after the effective date. However, no report was provided to the Board of Regents communicating the changes.</i>
	Policies	<i>Records of receipt and acknowledgment of TWU's investment policies for LOGIC were not available for review, since this investment agreements was initially executed more than five years ago. According to the institution's Records Retention Schedule, investment related documentation must only be maintained for four years. Therefore, we were unable to confirm that TWU provided copies of the investment policies, and received acknowledgements as required per the PFIA.</i>
	Reporting	<i>Although the Annual Investment Report (AIR) agrees to the greatest extent to the Annual Financial Report (AFR) for fiscal years 2016 and 2017, it was determined that the reporting method for the total investment amount reflected on the AFR was not consistent during the biennium. Total of investments for fiscal year 2016 was reported at gross which included the end-of-the-year adjustment from the Investment Manager. However, for fiscal year 2017, the amount was reported net of this adjustment. Without a documented methodology, the methodology that is utilized could be open to interpretation and could violate the consistency principle.</i>
	Auditing	<i>Due to the Office of Internal Audit's turnover followed by a hiring freeze, an audit of investments was not completed and filed to the State Auditor's Office (SAO) timely. The Assistant Director for Internal Audit resigned his position on February 2016, subsequently the Director left his position on October 2016. The state hiring freeze went into effect from January 31, 2017 through August 31, 2017. A new Director was hired on December 1, 2017. The SAO was informed of the delay in completing the audit. A request for the institution to be provided an extension to complete the audit was subsequently submitted to the SAO, however the request was not approved. An untimely audit could lead to delayed detection of deficiencies and subsequent delays in implementation of corrective action of deficiencies.</i>
	Reporting	<i>Although the Annual Investment Report (AIR) was completed and timely submitted to the State Auditor's Office (SAO), it was not submitted to the Comptroller and the Governor. Moreover, the AIR was submitted to the Legislative Budget</i>

Higher Education Institutions That Were Not Fully Compliant with the Act
(From Compliance Audit Reports for the Reporting Period Ending August 31, 2017)

Higher Education Institution	Area of Noncompliance	Internal or External Auditor Compliance Audit Findings ^a
		<i>Board (LBB) after Internal Audit made the request for submission documentation to be provided. In addition, there is no confirmation available that substantiates the investment policies were submitted to the LBB.</i>
Higher Education Institutions That Were Substantially Compliant with the Act		
Lamar Institute of Technology (Institution)	Training	<i>The Investment Officer for the Institution did not complete the required investment training by August 31, 2017. The TSUS [Texas State University System] Investment Policy for Operating Funds and Endowment Funds, November 2016 requires that “Each Investment Officer must attend five or more hours of investment training within six months of assuming the position and not less than once each state fiscal biennium.”</i>
	Reporting	<i>The TSUS Investment Policy for Operating Funds and Endowment Funds, November 2016 requires the use of benchmarks for its holdings. We reviewed the Quarterly Investment Report for August 31, 2017 and noted that an incorrect benchmark for bond proceeds had been used.</i>
Lamar State College—Port Arthur (Institution)	Training	<i>The Investment Officer for the Institution did not complete the required investment training by August 31, 2017. The TSUS Investment Policy for Operating Funds and Endowment Funds, November 2016 requires that “Each Investment Officer must attend five or more hours of investment training within six months of assuming the position and not less than once each state fiscal biennium.”</i>
	Reporting	<i>The TSUS Investment Policy for Operating Funds and Endowment Funds, November 2016 requires the use of benchmarks for its holdings. We reviewed the Quarterly Investment Report for August 31, 2017 and noted that an incorrect benchmark for bond proceeds had been used.</i>
Lamar University (University)	Training	<i>One of the four Investment Officers for the University did not complete the required investment training by August 31, 2017. The TSUS Investment Policy for Operating Funds and Endowment Funds, November 2016 requires that “Each Investment Officer must attend five or more hours of investment training within six months of assuming the position and not less than once each state fiscal biennium.”</i>
Midwestern State University (University)	Policies	<i>University Policy 4.182, Investment Policy - Operating Funds, includes procedures to monitor rating changes, but did not include procedures for the liquidation of investments that do not have the required minimum rating.</i>

Higher Education Institutions That Were Not Fully Compliant with the Act
(From Compliance Audit Reports for the Reporting Period Ending August 31, 2017)

Higher Education Institution	Area of Noncompliance	Internal or External Auditor Compliance Audit Findings ^a
Sam Houston State University (SHSU)	Policies	<p><i>The TSUS Investment Policy for Operating Funds and Endowment Funds, November 2016 (Policy) requires each component to establish written procedures and guidelines supporting this Policy and promoting internal control. The procedures should address controls specifically required by the Policy.</i></p> <p><i>The SHSU Investment Policies & Procedures, dated 6/12/2017, did not include the following specifically required controls:</i></p> <ul style="list-style-type: none"> - All transaction documentation will be completed within five business days of receipt; - An investment ledger will be maintained for reconciliation with the general ledger, bank reports, and trade confirmations on a monthly basis, at a minimum.
	Contracting	<p><i>The TSUS Investment Policy for Operating Funds and Endowment Funds, November 2016 requires investment manager contracts to contain a termination clause with a maximum 30 days' notice provision and not be for a term longer than two years. A renewal or extension of investment manager contracts must be approved by the Board.</i></p> <p><i>SHSU has seven active investment manager contracts that have been in place since between 2013 and 2015. Six contracts are open termed and one has a one year term that automatically renewed on the anniversary each year. All seven contracts did not have a Board approved renewal or extension. Additionally, one contract had a termination notice requirement of 90 days (or shorter upon mutual agreement) which is longer than the allowed 30 days.</i></p>
Texas Southern University (University)	Contracting	<p><i>The Investment Advisory Agreements for three of the four investment advisors/managers are outdated. We also observed that the Investment Advisory Agreements do not reference the University's Investment Policy Guidelines.</i></p>
	Reporting	<p><i>The University's investment advisors/managers Annual Disclosure statements were incomplete during fiscal year 2017, and had not been submitted to the State Auditor's Office.</i></p>
Texas State Technical College (TSTC)	Policies	<p><i>We determined that the annual independence forms for FY 2017 were not signed by the November 1 deadline. Rather, they were signed 2 weeks later at the November meeting of the Board. ^b</i></p>
	Policies	<p><i>We were also unable to obtain written evidence that the 2016 forms were signed. The forms could not be located because the Board secretary retired prior to our audit, and no one knew where she placed the forms. ^b</i></p>
University of North Texas (UNT)	Contracting	<p><i>UNT System, UNT, and UNT Dallas held repurchase agreements with Wells Fargo Bank as sweep investment vehicles during FY2017. However, this is specifically prohibited by the Master Depository and Banking Services Agreement between UNT System and Wells Fargo Bank. The total balance in the repurchase account at August 31, 2017 was \$7,665,644.</i></p>

Higher Education Institutions That Were Not Fully Compliant with the Act
(From Compliance Audit Reports for the Reporting Period Ending August 31, 2017)

Higher Education Institution	Area of Noncompliance	Internal or External Auditor Compliance Audit Findings ^a
University of North Texas at Dallas (UNT Dallas)	Contracting	<i>UNT System, UNT, and UNT Dallas held repurchase agreements with Wells Fargo Bank as sweep investment vehicles during FY2017. However, this is specifically prohibited by the Master Depository and Banking Services Agreement between UNT System and Wells Fargo Bank. The total balance in the repurchase account at August 31, 2017 was \$7,665,644.</i>
University of North Texas Health Science Center (UNTHSC)	Reporting	<i>There were 2 out of 4 instances where accrued investment interest income for UNTHSC at August 31, 2017, totaling \$22,683, was not recorded in the general ledger.</i>
University of North Texas System (UNT System)	Contracting	<i>UNT System, UNT, and UNT Dallas held repurchase agreements with Wells Fargo Bank as sweep investment vehicles during FY2017. However, this is specifically prohibited by the Master Depository and Banking Services Agreement between UNT System and Wells Fargo Bank. The total balance in the repurchase account at August 31, 2017 was \$7,665,644.</i>
<p>^a The findings presented, except as noted, are direct excerpts from the internal or external auditor reports.</p> <p>^b Texas State Technical College's compliance audit did not include insignificant findings. The findings presented in this table are from an email to the State Auditor's Office from the auditor who performed the System's compliance audit.</p>		

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

Table 13

Community Colleges That Were Not Fully Compliant with the Act (From Compliance Audit Reports for the Reporting Period Ending August 31, 2017)		
Community College	Area of Noncompliance	Internal or External Auditor Compliance Audit Findings ^a
Community College That Was Minimally Compliant with the Act		
Coastal Bend College (College)	Reporting	<i>The College failed to perform a quarterly investment report to the Board of Trustees for the quarter ended February 28, 2017.</i>
	Policies	<i>The College invested in two foreign bonds totaling \$54,779, which is not an allowable investment under the PFIA.</i>
	Policies	<i>After the date of purchase, ten bonds amounting to \$302,880 experienced downgrading to below the required rating of A for municipal bonds and AA- for corporate bonds by a nationally recognized rating agency.</i>
	Policies	<i>Investments are held by a custodian that is not compliant with the delivery versus payment standard.</i>
Community Colleges That Were Substantially Compliant with the Act		
Clarendon College (College)	Reporting	<i>The College did not post their quarterly or annual reports at the College's website during fiscal year 2016-2017. This has now been corrected by the College.</i>
Tarrant County College District (District)	Policies	<i>Within its beneficial interest in funds held by affiliate, the District held certain equity investments, which are not allowable under the Public Fund Investment Act. The District divested all noncompliant investments in September 2016.</i>
^a The findings presented are direct excerpts from the internal or external auditor reports.		

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

Definitions of Asset Classes

Table 14 provides the definitions of investment and deposit types.

Table 14

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’ Acceptance	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. 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 Corporation. (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 & Poor’s 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, and 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. (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. (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. (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. (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. (An 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 not reported as fixed income mutual funds in the section for Debt and Similar Investments > 1 Year Maturity, institutions should report non-money market, short-term fixed income mutual funds 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; 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 in **the annual investment report (including deposits)** is available on the State Auditor's Office's Web site at <http://www.sao.texas.gov/Resources/HigherEducationInvestmentReporting/>.

Related State Auditor’s Office Work

Related State Auditor’s Office Work		
Number	Product Name	Release Date
16-027	A Report on Agencies’, Higher Education Institutions’, and Community Colleges’ Compliance with Public Investment Reporting Requirements	May 2016
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

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Zerwas, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Entities Listed in Report

This report was distributed to the boards, chancellors, presidents, and executive directors of the agencies, higher education institutions, and community colleges listed in this report.



This document is not copyrighted. Readers may make additional copies of this report as **needed. In addition, most State Auditor's Office** reports may be downloaded from our Web site: www.sao.texas.gov.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.