



John Keel, CPA
State Auditor

A Review of

**State Agency, University, and
Community College District
Compliance with the
Public Funds Investment Act and
Investment Reporting
Requirements**

April 2010
Report No. 10-027



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Overall Conclusion

Most state agencies, universities, and community college districts fully complied with the Public Funds Investment Act (Act) in fiscal year 2009. Additionally, most universities and community college districts fully or substantially complied with higher education investment reporting requirements mandated by Rider 5, page III-237, the General Appropriations Act (81st Legislature).

With nearly \$51 billion¹ in investments as of August 31, 2009, it is important that these organizations comply with statutes and investment reporting requirements designed to help the Legislature, the organizations' boards, and the public ensure that these organizations manage and disclose their investments appropriately. The following describes compliance by type of organization for fiscal year 2009:

- **Agencies.** Ten of the 12 agencies subject to the Act were in full compliance with the Act. The School for the Blind and Visually Impaired did not obtain a compliance audit before the statutory deadline and it did not submit the required audit report to the State Auditor's Office within the required time frame. The report was submitted on April 9, 2010; therefore, the School for the Blind and Visually Impaired was noncompliant with the Act. The Texas Equal Access to Justice Foundation was only substantially compliant because it did not specify a contract termination date with its investment management firm.
- **Universities.** Eleven of the 15 universities subject to the Act were in full compliance with the Act. Sul Ross State University did not obtain a compliance audit before the statutory deadline, and it did not submit its audit report to the State Auditor's Office within the required time frame. The report was submitted on February 25, 2010; therefore, Sul Ross State University was noncompliant

Background Information

The Public Funds Investment Act (Act) was enacted in 1995 to improve the management of investments by state agencies, universities, and local governments. The Act requires certain state agencies, universities, and community college districts to implement controls in the form of investment policies, training, and reporting, as well as to obtain audits of those controls at least once every two years. In addition, Rider 5, page III-237, the General Appropriations Act (81st Legislature), requires universities and community college districts to produce quarterly investment reports, as well as an annual investment report prepared in a method prescribed by the State Auditor's Office. That method was outlined in *A Review of Higher Education Investment Reporting Requirements* (State Auditor's Office Report No. 02-058, July 2002).

¹ This amount is the sum of agency, university, and community college district investments, including investments of universities that are not subject to the Public Funds Investments Act.

with the Act. Texas State University - San Marcos was noncompliant with the Act because it did not submit an acceptable compliance audit report. Texas Southern University was minimally compliant with the Act and Stephen F. Austin State University was only substantially compliant with the Act because they did not comply with certain requirements for their investment policies, reporting, reviewing, or contracting.

In addition, all 15 universities were in full compliance with the higher education investment reporting requirements.

- **Community college districts.** Of the 50 community college districts subject to the Act, 48 were in full compliance with the Act. Texarkana College was minimally compliant with the Act because it did not review its investment policy and its investment officer did not receive required training. Western Texas College was only substantially compliant with the Act, because its investment officer did not receive required training.

In addition, 49 of the 50 community college districts were in full or substantial compliance with the higher education investment reporting requirements. Texarkana College did not post its current quarterly investment reports and investment policies on its Web site and, therefore, was minimally compliant.

- **Universities not subject to the Act but still subject to the higher education investment reporting requirements.** Four university systems² 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.

In reviewing universities and community college districts for compliance with the higher education investment reporting requirements, auditors determined that the majority of these organizations had not fully complied by the initial due date of January 1, 2010. However, after auditors contacted them and established a new due date of February 23, 2010, to allow them to achieve compliance, these organizations posted most of the required information on their Web sites.

This project was a review and, therefore, the information in this report was not subjected to the tests and confirmations that would be performed in an audit. However, the information in this report was subject to certain quality control procedures to help ensure accuracy.

² Those university systems include the Texas A&M University System, the Texas Tech University System, the University of Houston System, and the University of Texas System.

Summary of Objectives, Scope, and Methodology

The objectives of this review were to:

- Ensure that state agencies and most higher education institutions complied with the Act's requirement to submit a compliance report to the State Auditor's Office by January 1, 2010.
- Determine whether higher education institutions complied with Rider 5 (page III-237, the General Appropriations Act (81st Legislature)) reporting requirements as prescribed by the State Auditor's Office in *A Review of Higher Education Investment Reporting Requirements* (State Auditor's Office Report No. 02-058, July 2002).

The scope of this review covered investment disclosures and reports from September 1, 2008, through February 23, 2010, the due date auditors established for organizations to achieve full compliance after determining that some of them had not fully complied and needed more guidance. Auditors also reviewed results of the organizations' most recent audits regarding compliance with the Act.

The methodology for this review consisted of (1) collecting evidence regarding compliance with the Act included in the organizations' audit reports and (2) reviewing investment reports and comparing those reports with investments reported in organizations' annual financial reports. In addition, auditors reviewed the organizations' Web sites for the required investment disclosures and communicated with state agencies, universities, and community college districts in an effort to ensure that disclosures were completed by February 23, 2010.

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Detailed Results

Chapter 1

Most State Agencies Fully Complied with the Public Funds Investment Act

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

Definitions of Compliance with the Public Funds Investment Act

- Fully Compliant: No findings were reported.
- Substantially Compliant: Few findings were reported that were not significant 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 was not acceptable.

Ten of the 12 state agencies that are subject to the Act were in full compliance in fiscal year 2009. The School for the Blind and Visually Impaired did not obtain a compliance report before the statutory deadline, and it did not submit the required audit report to the State Auditor's Office within the required time frame. The report was submitted on April 9, 2010; therefore, the School for the Blind and Visually

Impaired was noncompliant with the Act. The Texas Equal Access to Justice Foundation³ was only substantially compliant because it did not specify a contract termination date with its investment management firm. The 12 agencies reported investments totaling more than \$20.5 billion as of August 31, 2009.

Table 1 lists the 10 agencies that were fully compliant with the Act.

Table 1

Agencies in Full Compliance with the Public Funds Investment Act
Board of Law Examiners
Department of Criminal Justice
Department of Housing and Community Affairs
Parks and Wildlife Department
Real Estate Commission
State Bar of Texas
Texas Local Government Investment Pool (TexPool)

³ The Texas Equal Access to Justice Foundation is a quasi-state agency created by the Supreme Court of Texas in 1984 to administer the Interest on Lawyers Trust Accounts (IOLTA) Program.

Agencies in Full Compliance with the Public Funds Investment Act
Texas Local Government Investment Pool Prime (TexPool Prime)
Texas Youth Commission
Water Development Board

Most Universities Fully Complied with the Public Funds Investment Act and Higher Education Investment Reporting Requirements

Universities' Compliance with the Act

Eleven of the 15 universities that are subject to the Act were in full compliance with the Act in fiscal year 2009. The 15 universities reported investments totaling more than \$1.5 billion as of August 31, 2009.

Auditors assessed compliance with the Act after reviewing the audit reports issued by the universities' auditors. Sul Ross State University did not obtain a compliance audit before the statutory deadline, and it did not submit its audit report to the State Auditor's Office within the required time frame. The report was submitted on February 25, 2010; therefore, Sul Ross State University was noncompliant with the Act. Texas State University – San Marcos was noncompliant with the Act because it did not submit an acceptable compliance audit report. Texas Southern University was minimally compliant with the Act and Stephen F. Austin State University was substantially compliant with the Act (see Table 2 for additional details regarding these two universities' compliance).

Definitions of Compliance with the Public Funds Investment Act

- Fully Compliant: No findings were reported.
- Substantially Compliant: Few findings were reported that were not significant 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 was not acceptable.

Table 2

Universities That Were Minimally or Substantially Compliant with the Public Funds Investment Act		
University	Area(s) of Non-compliance	Comments
University That Was Minimally Compliant with the Act		
Texas Southern University	Investment Policy	This university did not review its non-endowment funds policy annually.
	Reporting	This university did not post its (1) fourth quarter investment reports, (2) annual investment reports in the required format, (3) investment policy, and (4) 2009 disclosures on its Web site.
	Reporting	This university's investment reports did not contain all requirements of the Act.
	Reviewing	This university did not maintain investment broker confirmations.
	Contracting	One of this university's investment advisors did not complete a required policy acknowledgement.
	Contracting	This university did not have current executed agreements with investment advisors.

Universities That Were Minimally or Substantially Compliant with the Public Funds Investment Act		
University	Area(s) of Non-compliance	Comments
	Contracting	An investment advisor for this university did not file a disclosure statement in a timely manner.
University That Was Substantially Compliant with the Act		
Stephen F. Austin State University	Reporting	This university treated a money market fund (with \$4.2 million as of February 28, 2009) as operating cash instead of as an investment. Therefore, this university did not include these on its quarterly investment report.

Universities' Compliance with Higher Education Investment Reporting Requirements

The higher education investment reporting requirements, as outlined in *A Review of Higher Education Investment Reporting Requirements* (State Auditor's Office Report No. 02-058, July 2002), are as follows:

- Submit an annual investment report to the State Auditor's Office, the Comptroller of Public Accounts, the Governor's Office, and the Legislative Budget Board.
- Disclose the following information on the organization's Web site:
 - Quarterly investment reports.
 - Outside investment managers disclosure.
 - Soft dollar agreements disclosure.⁴
 - Foundation disclosure.
 - Current investment policies.

Definitions of Compliance with the Higher Education Investment Reporting Requirements

- Fully Compliant: The organization met all reporting requirements.
- Substantially Compliant: The organization met reporting requirements, with minor omissions.
- Minimally Compliant: The organization's achievement of the reporting requirements was incomplete, and there were significant omissions.
- Noncompliant: The organization's achievement of the reporting requirements was incomplete, and most or all of the required disclosures and reports were omitted.

In reviewing universities for compliance with the higher education investment reporting requirements, auditors determined that all 15 universities were fully compliant.

⁴ The U.S. Securities and Exchange Commission defines soft dollar practices as arrangements under which products or services other than execution of securities transactions are obtained by an adviser from or through a broker-dealer in exchange for the direction by the adviser of client brokerage transactions to the broker-dealer.

Table 3 lists the universities that were fully compliant with both the Act and the higher education investment reporting requirements.

Table 3

Universities in Full Compliance with the Public Funds Investment Act and Higher Education Investment Reporting Requirements
Angelo State University
Lamar Institute of Technology
Lamar State College - Orange
Lamar State College - Port Arthur
Lamar University
Midwestern State University
Sam Houston State University
Texas State Technical College System
Texas Woman's University
University of North Texas
University of North Texas Health Science Center at Fort Worth

Most Community College Districts Fully or Substantially Complied with the Public Funds Investment Act and Higher Education Investment Reporting Requirements

Community College Districts' Compliance with the Act

Independent audits provided by the community college districts identified overall compliance with the Act in fiscal year 2009. These community college districts reported investments totaling more than \$2.5 billion as of August 31, 2009.

Definitions of Compliance with the Public Funds Investment Act

- Fully Compliant: No findings reported.
- Substantially Compliant: Few findings reported that were not significant to policies, contracting, training, reporting, reviewing, or auditing.
- Minimally Compliant: Some findings reported that were significant to policies, contracting, training, reporting, reviewing, or auditing.
- Non-compliant: The required compliance report was not provided or was not acceptable.

A total of 48 community college districts were in full compliance with the Act. Table 4 provides information on Texarkana College, which was minimally compliant with the Act, and Western Texas College, which was substantially compliant with the Act.

Table 4

Community College Districts That Were Minimally or Substantially Compliant with the Public Funds Investment Act		
Community College District	Area(s) of Non-compliance	Comments
Community College District That Was Minimally Compliant with the Act		
Texarkana College	Investment Policy	This community college district's governing body did not review its investment policy during the year ended August 31, 2009.
	Training	This community college district's investment officer did not receive investment training during the two-year period ending August 31, 2009.
Community College District That Was Substantially Compliant with the Act		
Western Texas College	Training	This community college district's investment officer did not complete required investment training.

Community College Districts' Compliance with Higher Education Investment Reporting Requirements

Definitions of Compliance with the Higher Education Investment Reporting Requirements

- Fully Compliant: The organization met all reporting requirements.
- Substantially Compliant: The organization met reporting requirements, with minor omissions.
- Minimally Compliant: The organization's achievement of the reporting requirements was incomplete, and there were significant omissions.
- Non-compliant: The organization's achievement of the reporting requirements was incomplete, and most or all of the required disclosures and reports were omitted.

In reviewing community college districts for compliance with the higher education investment reporting requirements, auditors identified one community college district that was minimally compliant and six community college districts that were substantially compliant. The remaining 43 community college districts were fully compliant.

The one community college district that was minimally compliant—Texarkana College—did not post current quarterly investment reports and investment policies on its Web site. The six substantially compliant community college districts—College of the Mainland, Galveston Community College District, Houston Community College District, Panola College, Paris Junior College, and Texas

Southmost College—did not submit an annual investment report, or did not comply with the requirement to disclose the most current annual reaffirmation date of the investment policies (see Table 5 for additional details).

Table 5

Community College Districts That Were Minimally or Substantially Compliant with Higher Education Investment Reporting Requirements	
Community College District	Noncompliance
Community College District That Was Minimally Compliant with Higher Education Investment Reporting Requirements	
Texarkana College	This community college district did not submit or post its quarterly investment reports on its Web site. The investment policies this community college district posted on its Web site were not current or did not disclose the date of the most recent annual reaffirmation.
Community College Districts That Were Substantially Compliant with Higher Education Investment Reporting Requirements	
College of the Mainland	This community college district did not submit its annual investment report.
Galveston Community College District	The investment policy this community college district posted on its Web site did not note the date of the board's last reaffirmation of that policy.
Houston Community College District	The investment policy this community college district posted on its Web site did not note the date of the board's last reaffirmation of that policy.
Panola College	The investment policy this community college district posted on its Web site did not note the date of the board's last reaffirmation of that policy.
Paris Junior College	The investment policy this community college district posted on its Web site did not note the date of the board's last reaffirmation of that policy.
Texas Southmost College	The investment policy this community college district posted on its Web site did not note the date of the board's last reaffirmation of that policy.

Table 6 lists the community college districts that were fully compliant with both the Act and higher education investment reporting requirements.

Table 6

Community College Districts That Were Fully Compliant with the Public Funds Investment Act and Higher Education Investment Reporting Requirements
Alamo Community College District
Alvin Community College
Amarillo College
Angelina County Junior College District
Austin Community College District
Blinn College
Brazosport College District
Central Texas College District
Cisco Junior College District
Clarendon College
Coastal Bend College
Collin County Community College District
Dallas County Community College District
Del Mar College
El Paso Community College District
Frank Phillips College (Borger)
Grayson County College
Hill College District
Howard County Junior College District
Kilgore Junior College District
Laredo Community College
Lee College District
Lone Star College System (Formerly North Harris County College)
McLennan County Junior College District
Midland Community College District
Navarro College
North Central Texas Community College District
Northeast Texas Community College
Odessa Junior College District
Ranger College
San Jacinto College District
South Plains College
South Texas College
Southwest Texas Junior College
Tarrant County College District
Temple College
Trinity Valley Community College
Tyler Junior College District

**Community College Districts That Were Fully Compliant with
the Public Funds Investment Act and Higher Education
Investment Reporting Requirements**

Vernon College

Victoria County Junior College District

Weatherford College of the Parker County Junior College District

Wharton County Junior College District

All Universities Subject to the Higher Education Investment Reporting Requirements but Not Subject to the Act Fully Complied with the Requirements

Certain universities are required to follow the higher education investment reporting requirements but they are not subject to the Act. Specifically, any university that had total endowments of at least \$95 million as of May 1, 1995, is exempt from complying with the Act. This exemption includes any universities that are part of the Texas A&M University System, the Texas Tech University System, the University of Houston System, or the University of Texas System. These university systems were in full compliance with higher education investment reporting requirements. (The university systems reported for all of the universities within their systems.)

Agencies, Universities, and Community College Districts Invest in Authorized Investments

The state agencies, universities, and community college districts that auditors reviewed reported different types of investments as of August 31, 2009. Universities, agencies, and community college districts had nearly \$2.3 billion invested in the Texas Local Government Investment Pool (TexPool), which had \$9.3 billion invested in repurchase agreements.

Universities that were not subject to the Act invested very differently from the other types of organizations. For example:

- Universities that are not subject to the Act had 45.15 percent of their portfolios invested in “other investments,” including real estate, private equity, and hedge funds.
- Universities that are subject to the Act had 12.96 percent of their portfolios invested in “other investments.”
- Community college districts that are subject to the Act held 0.40 percent of their portfolios in “other investments.”
- State agencies that are subject to the Act held less than 0.01 percent of their portfolios in “other investments.”

Total investments reported by state agencies subject to the Act are presented in Table 7.

Table 7

Total Agency Investments ^a	
Agency	Market Value of Investments as of August 31, 2009
Board of Law Examiners	\$ 1,198,322.00
Department of Criminal Justice	18,832,649.66
Department of Housing and Community Affairs	1,689,225,386.32
Texas Local Government Investment Pool (TexPool) ^b	16,204,919,855.00
Texas Local Government Investment Pool Prime (TexPool Prime)	1,569,789,045.00
Parks and Wildlife Department	10,103,368.00
Real Estate Commission	2,320,718.75
School for the Blind and Visually Impaired	972,303.20
State Bar of Texas	16,836,367.00
Texas Equal Access to Justice Foundation	20,703,113.98

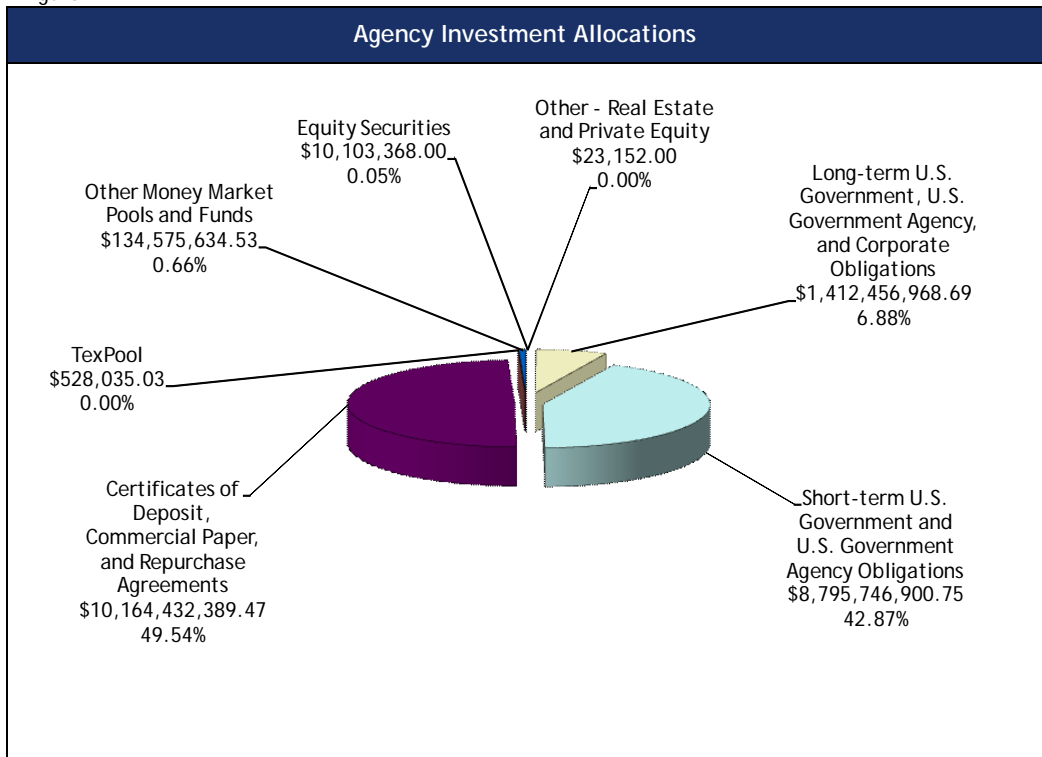
Total Agency Investments ^a	
Agency	Market Value of Investments as of August 31, 2009
Texas Youth Commission	792,000.00
Water Development Board	982,173,319.56
Total	\$20,517,866,448.47

^a This table includes investment information only for agencies that are subject to the Act.
^b The amount reported for TexPool includes \$2.3 billion that other organizations report as being invested in TexPool. To avoid duplication, this amount should be deducted from the overall total of available investments.

Source: Unaudited information reported by the agencies.

Agency investment allocations as of August 31, 2009, are depicted in Figure 1 (see Appendix 2 for definitions of specific asset classes).

Figure 1



Source: Unaudited information reported by the agencies.

Total investments reported by universities that are subject to the Act are presented in Table 8.

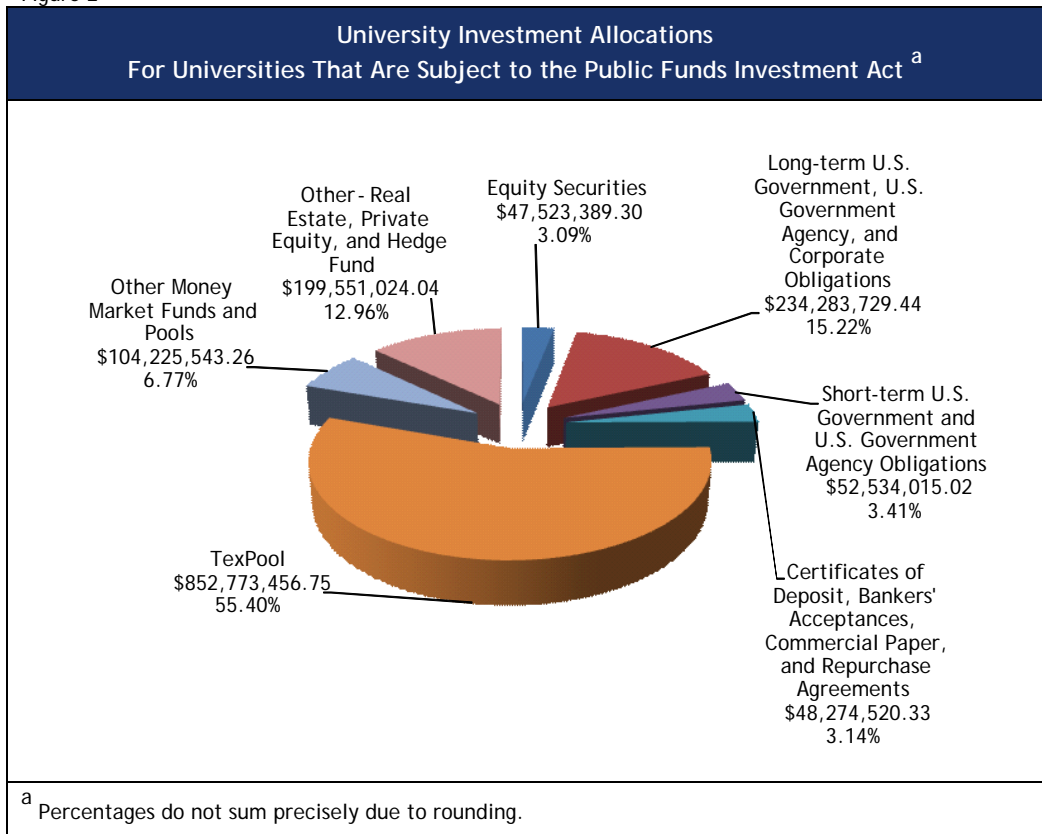
Table 8

Total Investments for Universities That Are Subject to the Public Funds Investment Act	
University	Market Value of Investments as of August 31, 2009
Angelo State University	\$ 120,620,050.00
Lamar Institute of Technology	1,926,810.00
Lamar State College - Orange	8,089,335.00
Lamar State College - Port Arthur	4,787,323.00
Lamar University	82,871,989.00
Midwestern State University	43,135,520.00
Sam Houston State University	167,418,160.00
Stephen F. Austin State University	67,498,495.00
Sul Ross State University	23,823,618.00
Texas Southern University	34,893,605.00
Texas State Technical College System	14,042,398.00
Texas State University - San Marcos	382,894,609.00
Texas Woman's University	195,324,955.00
University of North Texas	306,364,923.00
University of North Texas Health Science Center at Fort Worth	85,473,888.00
Total	\$1,539,165,678.00

Source: Unaudited information reported by the universities.

Investment allocations as of August 31, 2009, for universities that are subject to the Act are depicted in Figure 2.

Figure 2



Source: Unaudited information reported by the universities.

Total investments reported by community college districts are presented in Table 9.

Table 9

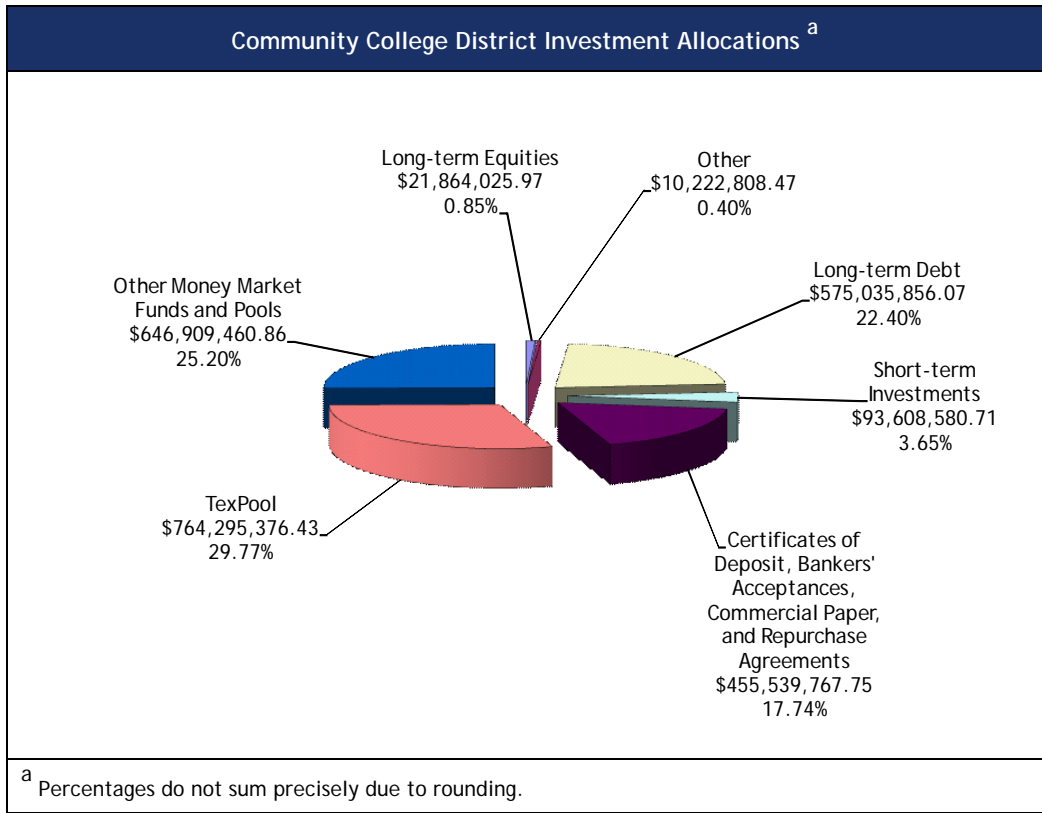
Total Community College District Investments	
Community College District	Market Value of Investments as of August 31, 2009
Alamo Community College District	\$ 216,122,179.00
Alvin Community College	8,976,672.00
Amarillo College	65,168,663.00
Angelina County Junior College District	8,359,286.65
Austin Community College District	156,364,258.00
Blinn College	25,889,655.00
Brazosport College District	30,822,537.00
Central Texas College District	99,093,337.00
Cisco Junior College District	3,762,226.00
Clarendon College	2,407,242.51
Coastal Bend College	3,423,630.64
College of the Mainland	15,623,752.00
Collin County Community College District	196,838,428.00
Dallas County Community College District	277,779,406.00
Del Mar College	52,963,694.38
El Paso County Community College District	82,370,200.01
Frank Phillips College (Borger)	1,200,146.00
Galveston Community College District	11,659,461.00
Grayson County College	50,083,103.00
Hill College District	4,501,481.25
Houston Community College System	159,697,902.05
Howard County Junior College District	31,248,829.00
Kilgore Junior College District	8,354,852.06
Laredo Community College	4,270,895.00
Lee College District	10,558,044.00
Lone Star College System (Formerly North Harris County College)	178,632,796.00
McLennan County Junior College District	24,838,183.00
Midland Community College District	20,841,190.00
Navarro College	6,720,777.00
North Central Texas Community College District	9,287,830.43
Northeast Texas Community College	2,225,771.00
Odessa Junior College District	24,420,272.00
Panola College	9,852,794.00
Paris Junior College	10,296,084.00

Total Community College District Investments	
Community College District	Market Value of Investments as of August 31, 2009
Ranger College	607,446.38
San Jacinto College District	314,595,266.00
South Plains College	9,722,250.71
South Texas College	74,629,261.00
Southwest Texas Junior College	3,632,201.33
Tarrant County College District	205,969,175.00
Temple College	15,559,209.00
Texarkana College	20,127,030.00
Texas Southmost College	3,521,301.00
Trinity Valley Community College	11,002,149.00
Tyler Junior College District	27,010,556.00
Vernon College	6,120,000.00
Victoria County Junior College District	2,825,281.00
Weatherford College of the Parker County Junior College District	27,826,450.86
Western Texas College	3,428,601.00
Wharton County Junior College District	26,244,120.00
Total	\$2,567,475,876.26

Source: Unaudited information reported by the community college districts.

Community college district investment allocations as of August 31, 2009, are depicted in Figure 3.

Figure 3



Source: Unaudited information reported by the community college districts.

Total investments reported by university systems that are not subject to the Act but that are subject to higher education investment reporting requirements are presented in Table 10.

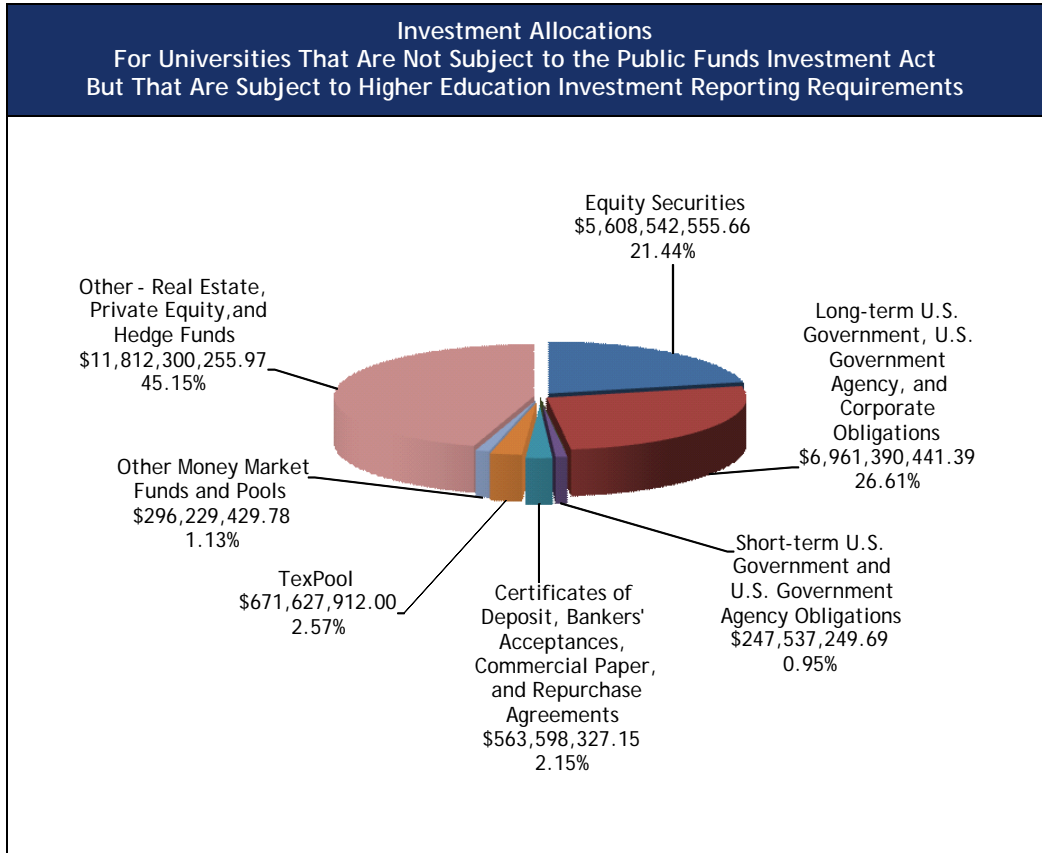
Table 10

Total Investments for Universities That Are Not Subject to the Public Funds Investment Act But That Are Subject to Higher Education Investment Reporting Requirements	
University System	Market Value of Investments as of August 31, 2009
Texas A&M University System	\$ 2,548,989,398.00
Texas Tech University System	1,446,497,660.00
University of Houston System	893,873,052.00
The University of Texas System	21,271,866,061.00
Total	\$26,161,226,171.00

Source: Unaudited information reported by the university systems.

Investment allocations as of August 31, 2009, for university systems that are not subject to the Act but that are subject to higher education investment reporting requirements are depicted in Figure 4.

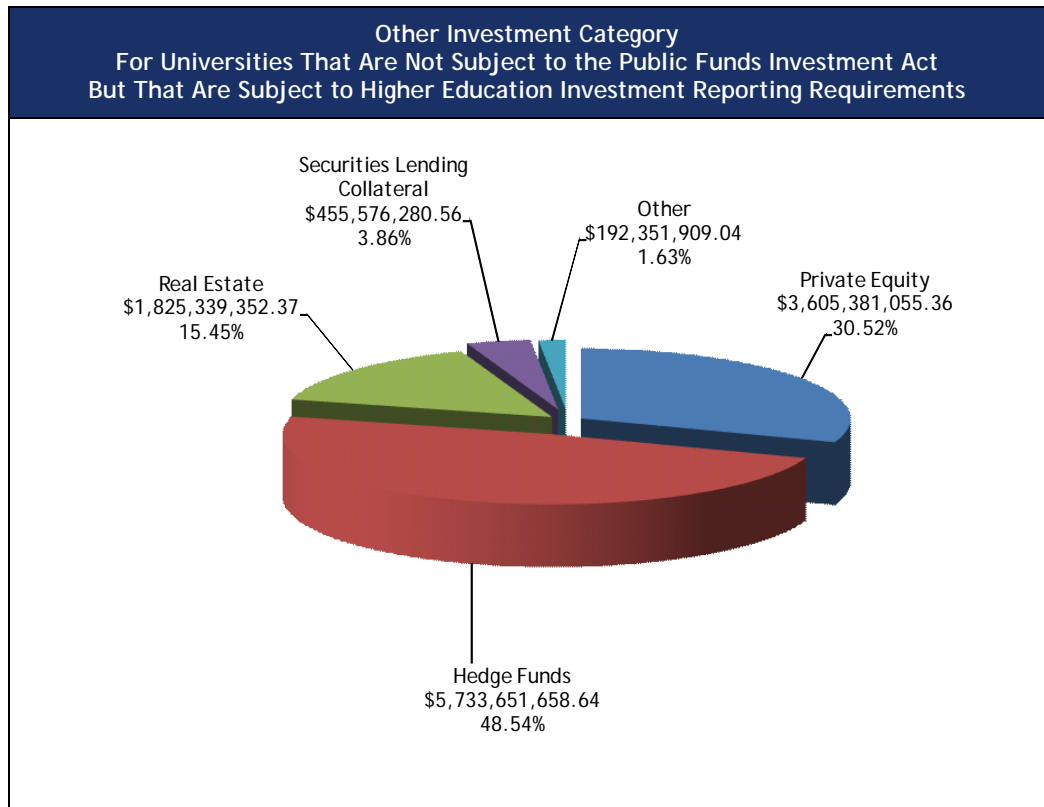
Figure 4



Source: Unaudited information reported by the university systems.

As shown in Figure 4 above, “Other Investments” comprised more than 45 percent of the overall portfolio for university systems that are not subject to the Act but that are subject to higher education investment reporting requirements. These other investments are detailed in Figure 5.

Figure 5



Source: Unaudited information reported by the university systems.

Enhancements to the Higher Education Investment Reporting Requirements and Other Recommendations

Auditors offer the following recommendations to enhance the consistency of investment reporting by organizations subject to the Act and to encourage universities and community college districts to ensure that they maintain compliance with the Act and higher education investment reporting requirements:

- We encourage management of these organizations to remain in compliance with the higher education investment reporting requirements. Management should ensure that their auditors understand the requirements, including the required assurances on compliance with the Act. Management of universities and community college districts also should ensure that the required investment disclosures are posted on their Web sites in a timely manner.
- Management of these organizations should reconcile amounts reported in the summary of investment reports posted on their Web sites and submitted to the State Auditor's Office to the amounts reported in their annual financial reports.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this review were to:

- Ensure that 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, 2010.
- Determine whether higher education institutions complied with Rider 5, page III-237, the General Appropriations Act (81st Legislature), reporting requirements as prescribed by the State Auditor's Office in *A Review of Higher Education Investment Reporting Requirements* (State Auditor's Office Report No. 02-058, July 2002).

Scope

The scope of this review covered investment disclosures and reports from September 1, 2008, through February 23, 2010, the due date auditors established for organization to achieve full compliance after determining that some of them had not fully complied and needed more guidance. Auditors also reviewed results of the organizations' most recent audits regarding compliance with the Act.

Methodology

The methodology for this review consisted of (1) collecting evidence regarding compliance with the Act included in the organizations' audit reports and (2) reviewing investment reports and comparing those reports with investments reported in the organizations' annual financial reports. In addition, auditors reviewed the organizations' Web sites for the required investment disclosures and communicated with state agencies, universities, and community college districts in an effort to ensure that disclosures were completed by February 23, 2010 (the due date auditors established after determining that some of the organizations had not fully complied with the requirements).

Other Information

This project was a review and, therefore, the information in this report was not subjected to the tests and confirmations that would be performed in an audit. However, the information in this report was subject to certain quality control procedures to help ensure accuracy.

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

- Tamara Shepherd, CGAP (Project Manager)
- Michael Gieringer, CFE
- Dana Musgrave, MBA (Quality Control Reviewer)
- Verma Elliott, CPA, CIA, CGAP, MBA (Audit Manager)

Definitions of Asset Classes

Table 11 provides the definitions of different asset classes.

Table 11

Definitions of Asset Classes
<u>A1/P1 Commercial Paper</u> : Commercial paper rated A1, P1, F1, or higher. Lower rated paper should be listed under "other" short-term investments.
<u>Annuities</u> : A type of investment sold by insurance companies. Annuities include fixed and variable annuities.
<u>Bank Deposits</u> : Money held in bank, savings bank, or credit union accounts.
<u>Bond Mutual Funds</u> : An investment in debt securities with a net asset value per share that varies.
<u>Cash Held at State Treasury</u> : Includes all balances held in the State Treasury or the Texas Treasury Safekeeping Trust Company.
<u>CDs/BAs</u> : Certificates of deposit and bankers' acceptances with a maturity of less than one year.
<u>Collateralized Mortgage Obligations (CMO)</u> : Mortgage-backed securities that create separate pools of pass-through rates for different classes of bondholders and with varying maturities. (CMOs are not allowable investments under the Public Funds Investment Act. However, organizations may hold CMOs that they purchased prior to September 1, 1995.)
<u>Collectables</u> : Items such as art, stamps, coins, historic documents, and memorabilia.
<u>Collective Endowment Funds</u> : Long-term endowment funds managed by a third party that combine investments from multiple investors (for example, the Common Fund or the Permanent Higher Education Fund).
<u>Commodities</u> : Investments in areas such as oil and gas, timberland, and precious metals.
<u>Corporate Obligations</u> : Include all non-governmental debt issues classified by rating. For issues with split ratings, the lower ratings are reported. Equivalent ratings from rating agencies such as Fitch may be used. <ul style="list-style-type: none"> ▪ <u>Highly Rated Corporate Issues</u>: Issues rated AAA or AA by Standard and Poor's or AAA or Aa by Moody's. ▪ <u>Investment Grade Corporate Issues</u>: Issues rated A or BBB by Standard and Poor's or A or Baa by Moody's. ▪ <u>NR/High Yield Issues</u>: Includes non-rated issues and those rated BB or lower by Standard and Poor's and Ba or lower by Moody's.
<u>Equity Mutual Funds</u> : These funds invest in stocks and also include balanced funds that include a mix of stocks and bonds.
<u>Equity Securities</u> : U. S. common stocks, equity mutual funds, and other equity securities.
<u>Foreign Issued Obligations</u> : Securities issued outside of the U.S. by non-U.S. issuers (in U.S. dollars or foreign currency). Also includes U.S.-issued securities denominated in foreign currencies.
<u>Guaranteed Investment Contracts (GIC)</u> : Contracts issued by insurance companies.
<u>Mortgage Pass-throughs</u> : Residential mortgage securities pooled together and marketed by governmental agency issuers such as the Government National Mortgage Association (GNMA or Ginnie Mae), FNMA (Fannie Mae), and Freddie Mac. Includes private issues with CMOs.
<u>Municipal Obligations</u> : All state, county, municipality, or public authority issues.
<u>Other Asset Backed Bonds</u> : Securities backed by pools of assets such as credit card loans, commercial real estate loans, and auto loans.
<u>Other Equity Securities</u> : Preferred stocks, foreign stocks, and non-publicly traded stocks.
<u>Other Money Market Funds</u> : Money funds with a constant \$1.00 per share net asset value objective.
<u>Private Equity</u> : Investments in things such as venture capital, hedge funds, leveraged buyout, mezzanine, and strategically traded securities that are held directly or through investment vehicles such as limited partnerships.
<u>Real Estate</u> : Real estate held for investment either directly or through investment vehicles such as limited partnerships.

Definitions of Asset Classes

Securities Lending Collateral: Collateral given to an investor in return for the loan of securities to a broker to cover a short sale.

Short-term Investments: All debt investments with a maturity "as of" purchase date of less than one year. May also include cash and bank deposits not otherwise classified.

TexPool and TexPool Prime: Investments in TexPool; includes other Texas pool investments.

U.S. Common Stocks: Publicly traded stocks.

U.S. Government Agency Securities: Securities issued by U.S. government-sponsored agencies or corporations such as FNMA (Fannie Mae) or FHLB (Federal Home Loan Bank) that do not have full faith and credit guarantees from the U.S. government.

U.S. Government Securities: Include treasuries and any other investments with an affirmative full faith and credit guarantee of the U.S. government.

Source: *A Review of State Agency, University, and Community College District Compliance with the Public Funds Investment Act and Investment Reporting Requirements* (State Auditor's Office Report No. 08-023, March 2008).

Related State Auditor's Office Work

Related SAO Work		
Number	Product Name	Release Date
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
06-026	A Review of State Entity and Community College District Compliance with the Public Funds Investment Act and Investment Reporting Requirements	March 2006
04-033	A Review of State Entity and Community College District Compliance with the Public Funds Investment Act and Investment Reporting Requirements	May 2004
02-058	A Review of Higher Education Investment Reporting Requirements	July 2002
02-039	A Review of State Entity Compliance with the Public Funds Investment Act	May 2002

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All Organizations Listed in This Report

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