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A Report on

**Agencies', Higher Education
Institutions', and Community Colleges'
Compliance with Public Funds
Investment Act and Rider 5, General
Appropriations Act, Reporting
Requirements**

June 2022
Report No. 22-034



A Report on
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Community Colleges' Compliance with Public
Funds Investment Act and Rider 5, General
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Overall Conclusion

All agencies, higher education institutions, and community colleges subject to the Public Funds Investment Act (Texas Government Code, Chapter 2256) provided compliance audit reports indicating that they fully or substantially complied with the Act for the biennial period ending on January 1, 2022¹.

Additionally, higher education institutions, including universities, university systems, and community colleges², are subject to the reporting requirements established in the Special Provisions Relating Only to State Agencies of Higher Education (Rider 5), Section 6, Subsection 5, page III-269, General Appropriations Act (87th Legislature), and prescribed by the State Auditor's Office. All of those institutions complied with Rider 5, as Table 1 indicates.

Entities subject to the requirements of the Act, Rider 5, or both reported total investment holdings of \$142.6 billion³ as of August 31, 2021.

It is important to note that the entities provided the information in this report and that the State Auditor's Office did not independently verify this 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 and provide those audits to the State Auditor's Office by January 1 of every even-numbered year.

In addition, Rider 5, the General Appropriations Act (87th 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 <https://sao.texas.gov/InternalAudit/PublicFunds/>. Additionally, the higher education institutions and community colleges are required to publish quarterly investment reports on their websites.

Sources: The Act, the General Appropriations Act (87th Legislature), and the State Auditor's Office website.












¹ The Act requires compliance reporting once every two years. As a result, auditors reviewed compliance reports that were due by the statutory date of January 1, 2022. Rider 5 compliance testing is for the fiscal year ended August 31, 2021, and investment balances are as of August 31, 2021.

² 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.

³ Total investment holdings is the sum of investments of the agencies, higher education institutions or systems, and community colleges that are subject to the Act, as well as investments of the higher education institutions or systems that are not subject to the Act. The total excludes those entities' investments in the Texas Local Government 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, annual financial statements, or other investment documentation.

Table 1

Summary of Compliance Status

Entity	Compliance Status ^a		
	The Act ^b		Rider 5 ^c
	Fully Compliant	Substantially Compliant	Fully Compliant
			
Agencies Subject to the Act but not Rider 5	6 (of 12)	6 (of 12)	N/A
Higher Education Institutions Subject to the Act and Rider 5	1 (of 4)	3 (of 4)	4 (of 4)
Community Colleges Subject to the Act and Rider 5	48 (of 50)	2 (of 50)	50 (of 50)
Higher Education Institutions Subject to Rider 5 but not the Act	N/A	N/A	7 (of 7)
^a Compliance was determined using the following categories:			
For PFIA  Fully Compliant: No findings were reported by internal or external auditors.  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.	
For Rider 5  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 all or most of the required disclosures or reports.	
^b All entities tested were either fully or substantially compliant with the Act. ^c All entities tested were fully compliant with Rider 5.			

Some entities did not submit compliance reports by the statutorily required due date of January 1, 2022. In addition, a number of institutions using external auditors submitted reports that provided an opinion only on material noncompliance instead of identifying any instances of noncompliance, as required. Further, a number of higher education institutions and community colleges were not in compliance with the Rider 5 higher education reporting requirements at the beginning of this project. However, the entities or auditors were able to provide the missing information or verify that the reporting requirements were met prior to completion of this report.

Audit Objectives and Scope

The objectives of this project were to:

- Determine whether state agencies and 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, 2022.
- Determine whether higher education institutions complied with Special Provisions Relating Only to State Agencies of Higher Education, Section 6, Subsection 5, page III-269, the General Appropriations Act (87th Legislature) and the reporting requirements as prescribed by the State Auditor's Office on its website.

The scope of this project covered compliance audit reports required to be submitted by January 1, 2022, and Rider 5 investment disclosures for the fiscal year ended August 31, 2021. Auditors reviewed the reports between February 2022 and May 2022.

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Detailed Results

Chapter 1

Entities' Compliance with PFIA and Rider 5 Requirements

The Public Funds Investment Act (Act) requires governing bodies of entities that invest public funds to implement investment-related controls in the following areas: policies, contracting, training, reporting, reviewing, and auditing. The Act contains multiple requirements for each of these areas, and the entities' internal or external auditors must test compliance with the requirements every two years. The Act requires the entities subject to the Act to submit compliance audit reports to the State Auditor's Office.

For the compliance reporting period ended January 1, 2022, all entities subject to the Act submitted the required compliance audit reports. The State Auditor's Office reviewed the reports and defined levels of compliance (see page *ii* in the Overall Conclusion for definitions).

Additionally, higher education institutions, including universities, university systems, and community colleges, are subject to the reporting requirements established in the Special Provisions Relating Only to State Agencies of Higher Education (Rider 5), Section 6, Subsection 5, page III-269, General Appropriations Act (87th Legislature), and prescribed by the State Auditor's Office.

Rider 5 requirements include 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 website:
 - ♦ The annual investment report described above.
 - ♦ Quarterly investment reports.
 - ♦ Current investment policies.
 - ♦ The use of outside investment advisors or managers.

- ♦ The use of soft dollar agreements, directed brokerage or directed commission, commission recapture, or similar arrangements.⁴
- ♦ Associations with independent endowments or foundations.

The State Auditor’s Office reviewed the investment reports and disclosures on the institutions’ websites to determine compliance with Rider 5 for the fiscal year ended August 31, 2021.

Agencies’ Compliance with the Act

Of the 12 agencies subject to the Act, 6 submitted reports that indicated full compliance with the Act and 6 submitted reports indicating they were substantially compliant. The specific instances of noncompliance are noted in Appendix 2. Table 2 shows ratings for compliance by agencies subject to the Act.

Table 2

Agencies’ Compliance

Act	Agency
✔	Board of Law Examiners
●	Department of Criminal Justice
●	Department of Housing and Community Affairs
●	Department of Transportation
✔	Real Estate Commission
●	School for the Blind and Visually Impaired
✔	State Bar of Texas
●	Texas Access to Justice Foundation
✔	Texas State Affordable Housing Corporation
✔	Texas Treasury Safekeeping Trust Company (TexPool and TexPool Prime)
✔	Trusted Programs within the Office of the Governor
●	Water Development Board
✔ Fully Compliant ● Substantially Compliant	

For definitions of compliance status, see page *ii* in the Overall Conclusion.

⁴ 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.

Higher Education Institutions' Compliance with the Act

The Act defines state agencies to include higher education institutions with authority to invest public funds. However, higher education institutions that had total endowments of \$150 million in book value as of September 1, 2017, are exempt from the Act. Excluding community colleges, which are presented separately in this chapter, auditors determined that four higher education institutions were required to follow the Act and seven higher education institutions were exempt from the Act.

All four higher education institutions determined to be subject to the Act provided compliance audit reports for the biennial period ending on January 1, 2022. One institution provided a report that indicated it fully complied with the Act. Three institutions provided reports from which auditors determined that they substantially complied with the Act. Table 3 on the next page shows ratings for compliance by higher education institutions subject to the Act. The specific instances of noncompliance with the Act are noted in Appendix 2.

Higher Education Institutions' Compliance with Investment Reporting Requirements of Rider 5









Rider 5 requires all higher education institutions to provide an annual report of investment transactions, in a manner prescribed by the State Auditor's Office.



All four of the higher education institutions determined by auditors to be subject to the Act, as well as all seven higher education institutions determined by auditors to be exempt from the Act, were fully compliant with Rider 5 requirements.

Tables 3 and 4 on the next page show ratings for compliance by higher education institutions.

Table 3

***Higher Education Institutions' Compliance
(Subject to the Act)***








Act	Rider 5	Institution
		Midwestern State University
		Stephen F. Austin State University
		Texas Southern University
		Texas State Technical College System



 Fully Compliant
  Substantially Compliant

For definitions of compliance status, see page *ii* in the Overall Conclusion.

Table 4

***Higher Education Institutions' Compliance
(Exempt from the Act)***

Rider 5	Institution
	Texas A&M University System
	Texas State University System
	Texas Tech University System
	Texas Woman's University
	The University of Texas System
	University of Houston System
	University of North Texas System

 Fully Compliant
  Substantially Compliant

For definitions of compliance status, see page *ii* in the Overall Conclusion.

Community Colleges' Compliance with the Act and Rider 5

Of the 50 community colleges tested, all 50 provided compliance audit reports in accordance with the Act for the biennial period ending January 1, 2022. Of these, 48 reports indicated full compliance with the Act and 2 indicated substantial compliance. The specific instances of noncompliance are listed in Appendix 2.

In reviewing the community colleges' websites, auditors determined that all 50 fully complied with the reporting requirements of Rider 5.









Table 5 provides additional details of community colleges' compliance with the Act and the reporting requirements of Rider 5.

Table 5

Community Colleges' Compliance

Act	Rider 5	Community College
✓	✓	Alamo Community College
✓	✓	Alvin Community College
✓	✓	Amarillo College
✓	✓	Angelina College
✓	✓	Austin Community College
✓	✓	Blinn College
✓	✓	Brazosport College
✓	✓	Central Texas College
●	✓	Cisco Junior College
✓	✓	Clarendon College
✓	✓	Coastal Bend College
✓	✓	College of the Mainland
✓	✓	Collin County Community College
✓	✓	Dallas County Community College
✓	✓	Del Mar College
✓	✓	El Paso Community College
●	✓	Frank Phillips College (Borger Junior College District)
✓	✓	Galveston College

Act	Rider 5	Community College
✓	✓	Grayson County College
✓	✓	Hill College
✓	✓	Houston Community College
✓	✓	Howard College
✓	✓	Kilgore College
✓	✓	Laredo Community College
✓	✓	Lee College
✓	✓	Lone Star College System
✓	✓	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
✓	✓	Tarrant County College
✓	✓	Temple College
✓	✓	Texarkana College
✓	✓	Texas Southmost College
✓	✓	Trinity Valley Community College
✓	✓	Tyler Junior College
✓	✓	Vernon College
✓	✓	Victoria College

Act	Rider 5	Community College
		Weatherford College
		Western Texas College
		Wharton County Junior College
 Fully Compliant		 Substantially Compliant

For definitions of compliance status, see page *ii* in the Overall Conclusion.

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

The agencies, higher education institutions, and community colleges reviewed reported total investment holdings of \$142.6 billion as of August 31, 2021. Specifically:

- The 12 agencies **subject to the Act** reported investments of \$41.4 billion as of August 31, 2021.
- The four higher education institutions **subject to the Act** reported total investments of \$484.2 million as of August 31, 2021.
- The 50 community colleges **subject to the Act** reported total investments of \$4.5 billion as of August 31, 2021.
- The seven higher education institutions that are **not subject to the Act** reported investments of \$96.2 billion as of August 31, 2021.

Investments at Agencies Subject to the Act

Table 6 on the next page lists the total investments for agencies subject to the Act as of August 31, 2021. To avoid double counting, these amounts do not include TexPool and TexPool Prime investments of \$7.7 million held by certain agencies and included with Texas Treasury Safekeeping and Trust Company investments.

Table 6

Total Investments for Agencies Subject to the Act ^a

Agency	Market Value of Investments as of August 31, 2021
Board of Law Examiners	\$ 5,102,677
Department of Criminal Justice	140,091,631
Department of Housing and Community Affairs	2,986,562,525
Department of Transportation	1,898,943,000
Real Estate Commission	32,102,457
School for the Blind and Visually Impaired	1,657,277
State Bar of Texas ^b	55,267,706
Texas Access to Justice Foundation	46,204,635
Texas State Affordable Housing Corporation	90,249,310
Texas Treasury Safekeeping Trust Company	31,528,346,040
Trusted Programs within the Office of the Governor	1,344,890
Water Development Board	4,640,314,882
Total	\$ 41,426,187,030

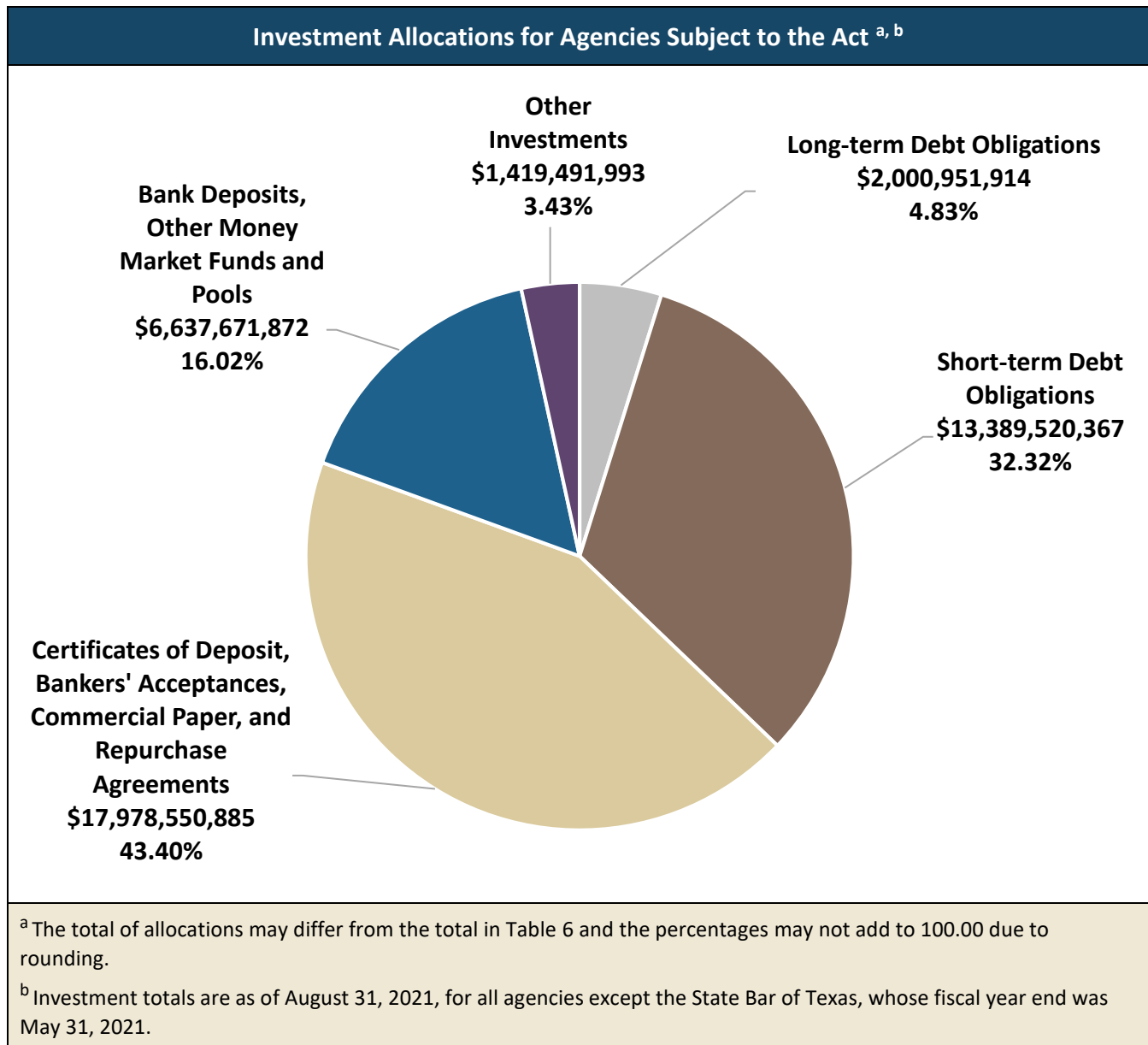
^a This table includes investment information only for agencies subject to the Act. The amounts in this table are based on information the agencies provided. Auditors did not perform tests or other procedures to verify the accuracy of the reported amounts. These amounts include agency investments that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

^b Data is as of the agency's fiscal year end, May 31, 2021.

Sources: **Unaudited annual financial reports:** Department of Criminal Justice, Real Estate Commission, School for the Blind and Visually Impaired, Trusted Programs within the Office of the Governor, and Water Development Board. **Portfolio holdings report:** Texas Access to Justice Foundation. **Audited annual financial reports:** Board of Law Examiners, Department of Housing and Community Affairs, Department of Transportation, State Bar of Texas, Texas State Affordable Housing Corporation, and Texas Treasury Safekeeping Trust Company.

Figure 1 on the next page shows the allocation of investments held by agencies subject to the Act as of August 31, 2021.

Figure 1



Sources: **Unaudited annual financial reports:** Department of Criminal Justice, Real Estate Commission, School for the Blind and Visually Impaired, Trusteed Programs within the Office of the Governor, and Water Development Board. **Portfolio holdings report:** Texas Access to Justice Foundation. **Audited annual financial reports:** Board of Law Examiners, Department of Housing and Community Affairs, Department of Transportation, State Bar of Texas, Texas State Affordable Housing Corporation, and Texas Treasury Safekeeping Trust Company.

Investments at Higher Education Institutions Subject to the Act

Table 7 lists the total investments as of August 31, 2021, reported by higher education institutions that are subject to the Act and subject to the reporting requirements of Rider 5. These amounts do not include TexPool and TexPool Prime investments of \$74 million held by multiple institutions and reported with Texas Treasury Safekeeping and Trust Company total investments.

Table 7

Total Investments for Higher Education Institutions Subject to the Act ^a

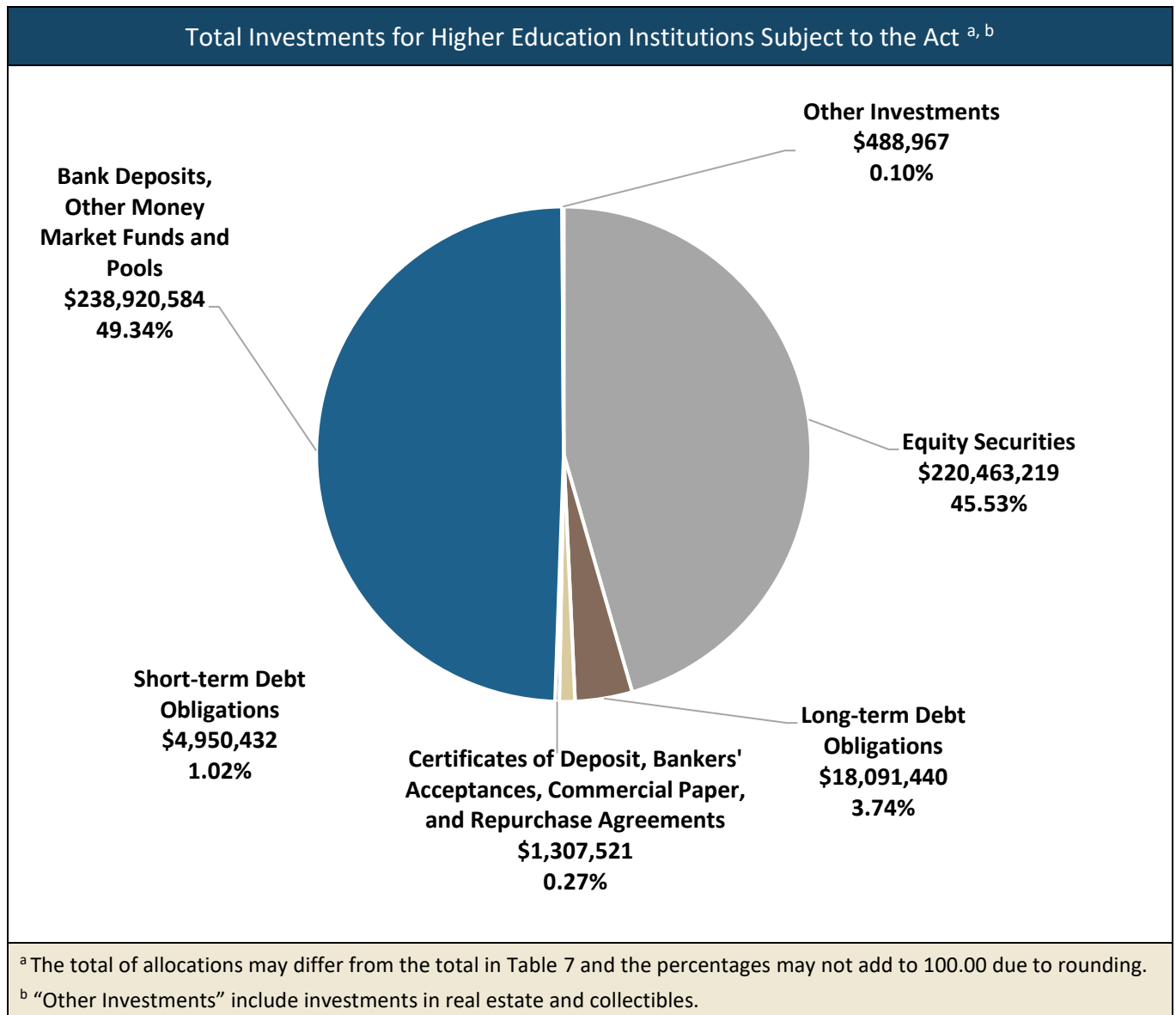
University or System	Market Value of Investments as of August 31, 2021
Midwestern State University	\$ 90,960,467
Stephen F. Austin State University	235,408,311
Texas Southern University	97,251,263
Texas State Technical College System	60,602,121
Total	\$ 484,222,162

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

Sources: Annual investment reports as of August 31, 2021, provided by the universities and system.

Figure 2 on the next page shows the investment allocations as of August 31, 2021, for higher education institutions subject to the Act.

Figure 2



Sources: Annual investment reports as of August 31, 2021, provided by the universities and system.

Investments at Community Colleges Subject to the Act

Table 8 on the next page lists the total investments at community colleges subject to the Act as of August 31, 2021, and subject to the reporting requirements of Rider 5. These amounts do not include TexPool and TexPool Prime investments of \$1.2 billion held by certain institutions and included with Texas Treasury Safekeeping and Trust Company investments.

Table 8

Total Investments for Community Colleges Subject to the Act ^a

Community College	Market Value of Investments as of August 31, 2021
Alamo Community College	\$ 409,685,730
Alvin Community College	13,834,292
Amarillo College	29,539,632
Angelina College	28,299,661
Austin Community College	96,227,472
Blinn College	149,499,113
Brazosport College	13,516,803
Central Texas College	107,602,095
Cisco Junior College	8,139,317
Clarendon College	5,864,412
Coastal Bend College	7,533,720
College of the Mainland	59,701,354
Collin County Community College	149,580,315
Dallas County Community College	409,482,836
Del Mar College	192,127,682
El Paso Community College	112,092,049
Frank Phillips College (Borger Junior College District)	595,835
Galveston College	19,421,621
Grayson County College	40,079,816
Hill College	24,026,193
Houston Community College	241,915,657
Howard College	26,775,872
Kilgore College	29,122,683
Laredo Community College	80,497,082
Lee College	48,687,256
Lone Star College System	388,842,697
McLennan Community College	22,926,547

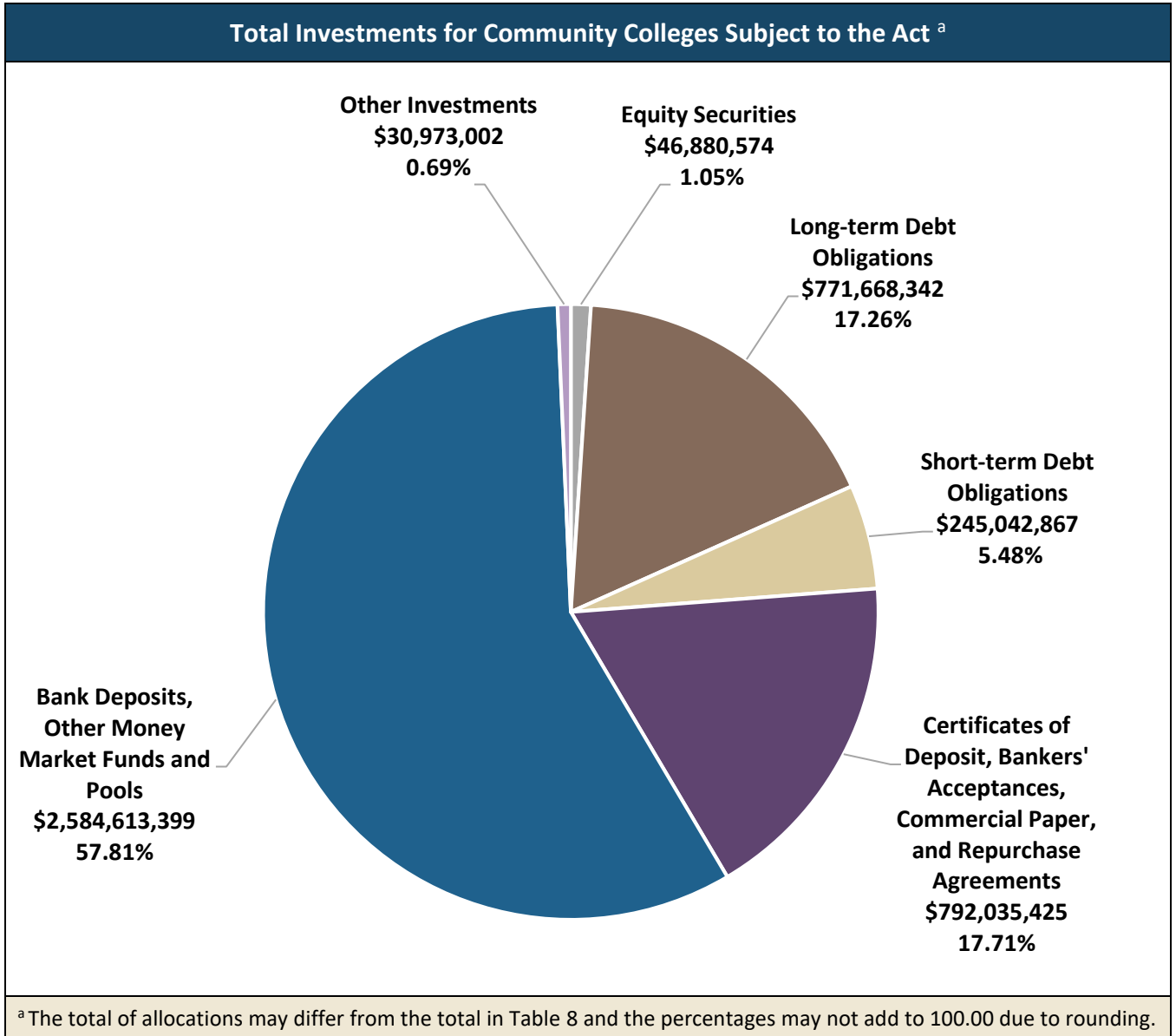
Community College	Market Value of Investments as of August 31, 2021
Midland College	51,821,571
Navarro College	22,904,398
North Central Texas College	18,220,969
Northeast Texas Community College	6,541,183
Odessa College	83,998,776
Panola College	41,426,725
Paris Junior College	18,496,137
Ranger College	4,011,617
San Jacinto College	100,057,142
South Plains College	36,367,637
South Texas College	324,769,316
Southwest Texas Junior College	21,457,503
Tarrant County College	531,312,612
Temple College	152,080,831
Texarkana College	30,413,473
Texas Southmost College	85,436,664
Trinity Valley Community College	27,561,129
Tyler Junior College	23,898,479
Vernon College	11,004,048
Victoria College	21,426,609
Weatherford College	79,347,946
Western Texas College	30,736,181
Wharton County Junior College	32,304,922
Total	\$ 4,471,213,610

^a The amounts in this table are based on information the community colleges provided. Auditors did not perform tests or other procedures to verify the accuracy of the reported amounts. This table includes investment information only for community colleges subject to the Act. These amounts include investments that are subject to the Act and exclude community colleges' investments in the Texas Treasury Safekeeping Trust Company (TexPool and TexPool Prime) to prevent counting those holdings twice.

Sources: Annual investment reports as of August 31, 2021, provided by the community colleges.

Figure 3 shows the allocation of investments held by community colleges as of August 31, 2021.

Figure 3



Sources: Annual investment reports as of August 31, 2021, provided by the community colleges.

Investments at Higher Education Institutions Not Subject to the Act

Table 9 lists the total investments reported by higher education institutions that are not subject to the Act but are subject to the higher education reporting requirements of Rider 5. These amounts do not include TexPool and TexPool Prime investments of \$878.3 million held by certain institutions and included with Texas Treasury Safekeeping and Trust Company investments.

Table 9

Total Investments for University and Systems Not Subject to the Act^a

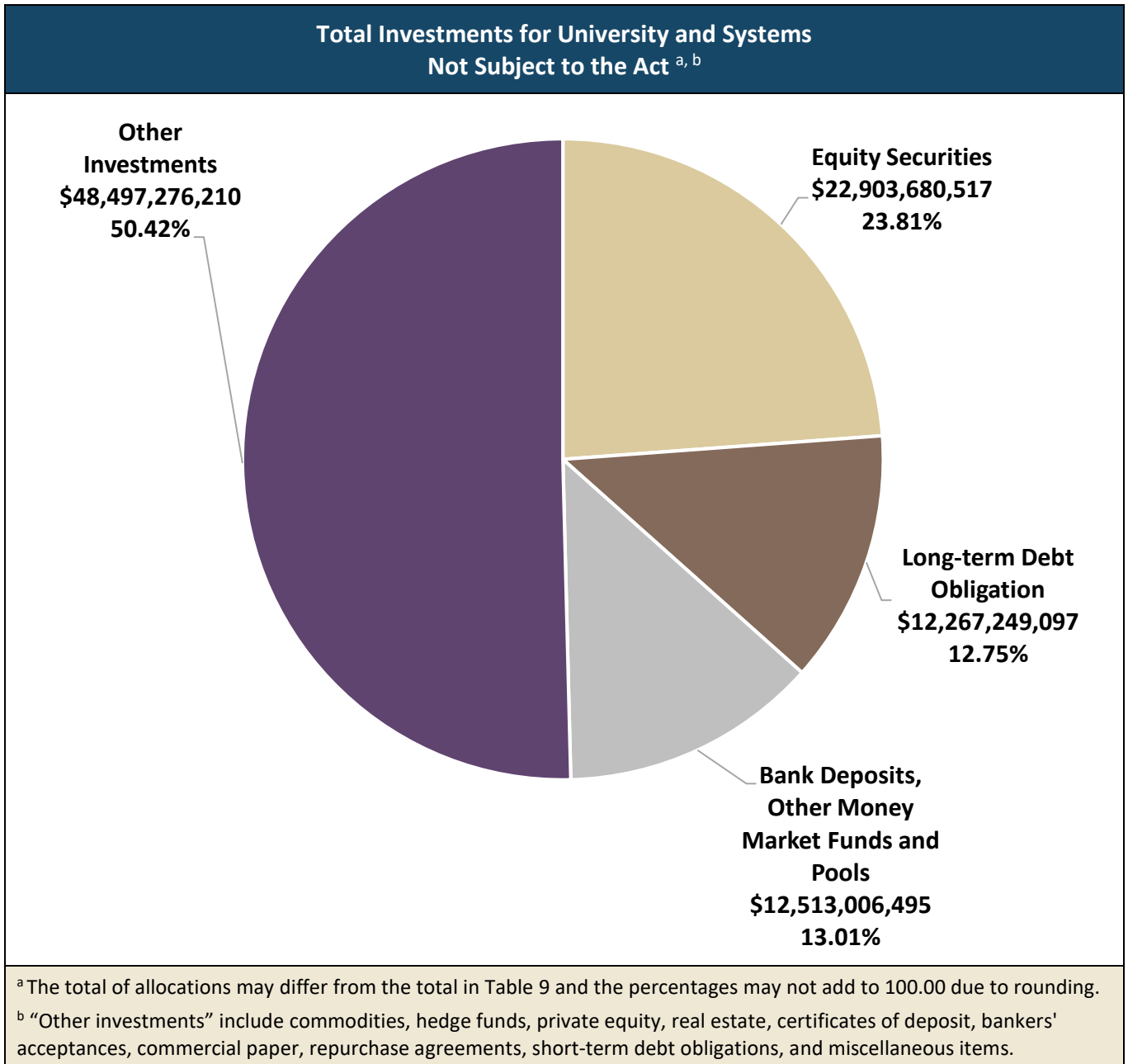
University or System	Market Value of Investments as of August 31, 2021
Texas A&M University System	\$ 8,310,413,979
Texas State University System	877,438,890
Texas Tech University System	3,474,648,225
Texas Woman's University	321,986,732
The University of Texas System	80,490,409,710
University of Houston System	1,957,027,396
University of North Texas System	749,287,387
Total	\$ 96,181,212,319

^a This table includes investment information only for the university and the university systems exempt from the Act in Texas Government Code, Section 2256.004. The amounts do not include cash or TexPool and TexPool Prime. Investments in the Texas Treasury Safekeeping Trust Company (TexPool and TexPool Prime) are not included to prevent counting those holdings twice. The amounts in this table are based on self-reported information, and auditors did not perform tests or other procedures to verify the accuracy of the reported amounts.

Sources: Annual investment reports as of August 31, 2021, provided by the university and university systems.

Figure 4 on the next page shows the investment allocations as of August 31, 2021, for higher education institutions that are not subject to the Act but are subject to the investment reporting requirements of Rider 5.

Figure 4



Sources: Annual investment reports as of August 31, 2021, provided by the university and university systems.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this project were to:

- Determine whether state agencies and 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, 2022.
- Determine whether higher education institutions complied with Special Provisions Relating Only to State Agencies of Higher Education, Section 6, Subsection 5, page III-269, the General Appropriations Act (87th Legislature) and reporting requirements as prescribed by the State Auditor's Office on its website.

Scope

The scope of this project covered compliance audit reports required to be submitted by January 1, 2022, and Rider 5 investment disclosures for the fiscal year ended August 31, 2021. Auditors reviewed the reports between February 2022 and May 2022.

Auditors considered information provided through March 31, 2022, for agencies, higher education institutions, and community colleges when determining their level of compliance with the Act and Rider 5 requirements.

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' websites 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 provided the information in this report and that the State Auditor's Office did not independently verify that information.

Information collected and reviewed included the following:

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

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 the following on its website:
 - ♦ Investment policy.
 - ♦ Quarterly and annual investment reports for the previous fiscal year.
 - ♦ Answers to the State Auditor's Office questions regarding outside investment managers, soft-dollar arrangements, and foundations.
- Determining whether the annual investment report for each higher education institution and community college used the format prescribed by the State Auditor's Office.
- Compiling investment balances for each entity individually and by type of entity.

Criteria used included the following:

- The Public Funds Investment Act (Texas Government Code, Chapter 2256).
- Higher education investment reporting requirements mandated by Rider 5, page III-269, General Appropriations Act (87th Legislature), and prescribed by the State Auditor's Office on its website at <https://sao.texas.gov/InternalAudit/PublicFunds/>.

Project Information

Project fieldwork was conducted from February 2022 through May 2022. This project was not an audit, and 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:

- Benjamin Nathaniel Keyfitz, CPA, CFE (Project Manager)
- Sarah O. Kade
- Dana Musgrave, MBA, CFE (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

Instances of Noncompliance with the Act

Tables 10 through 12 provide information on the instances of noncompliance reported 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 10

Agencies That Were Not Fully Compliant with the Act (From Compliance Audit Reports for the Reporting Period Ending January 1, 2022)		
Agency	Area of Noncompliance	Internal or External Auditor Findings ^a
Agencies That Were Substantially Compliant with the Act		
Department of Criminal Justice (Department)	Training	<i>[Internal Audit found that] while a Windham School District (WSD) employee had been involved with investment activities since December 2019, the employee had not signed an Investor Certification of Ethical Understanding until October 8, 2021.</i>
	Policies	<i>[Internal Audit found that] Approved Financial Institution documentation for WSD was not created and signed by the investment committee for fiscal years 2020 and 2021. Therefore, a list of qualified brokers authorized to engage in investment transactions with WSD was not reviewed, revised, and adopted, at least annually, as required. However, Internal auditors noted the qualified brokers have not changed in several years.</i>
Department of Housing and Community Affairs (Department)	Training	<i>Two of the three newly appointed board members in fiscal year 2021 did not have the required investment training within six months of their appointment date and assuming their roles as members of the Department's governing board.</i>
Department of Transportation (Department)	Compliance	<p><i>[Internal Audit found that] Project Finance, Debt, and Strategic Contracts Division executed an investment trade transaction that was non-compliant with the Public Funds investment Act (the "PFIA")... A review of all eight FY 2021 TTC investment trade transactions noted that one investment trade transaction was completed with a broker/dealer that was not included on the approved list. The investment trade transaction (~ 7% of all FY 2021 investment dollars) was settled on April 23, 2021 and subsequently called on July 23, 2021. The use of the unapproved broker/dealer was discovered in August 2021 by the same investment officer who made the initial transaction. The discovery was then communicated to two additional investment officers.</i></p> <p><i>[Internal Audit found that] 2 of 5 (40%) investment officers did not have a completed conflict of interest statement with the Texas Transportation Commission (TTC) and Grand Parkway Transportation Corporation (GPTC). Two investment officers, the Interim CFO (FY 2021 term: 2 months) and the newly appointed CFO (FY 2021 term: 5 months) did not demonstrate a freedom of conflict of interests in FY 2021. A conflict of interest statement was completed for the newly appointed CFO during the first quarter of FY 2022 per the routine annual process to obtain such statements.</i></p>

**Agencies That Were Not Fully Compliant with the Act
(From Compliance Audit Reports for the Reporting Period Ending January 1, 2022)**

Agency	Area of Noncompliance	Internal or External Auditor Findings ^a
School for the Blind and Visually Impaired (School)	Compliance	<p><i>Certificates of deposit (CDs) are authorized investments under GV Sec. 2256.010 if they are insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized in manners described by the Section... However, during a 4-month period from 10/14/2020 (when a \$200,000 CD was purchased) to 2/12/2021 (when a \$100,000 CD matured), funds held by FNB were exposed to custodial credit risk since they exceeded the FDIC insurance coverage by \$50,000 and were not collateralized.</i></p> <p><i>[Additionally,] TSBVI has established procedure, as Code B.3, Monitoring Investment, which requires multiple quotes to be obtained when purchases are made. Our testing of 5 investment related transactions that took place during the audit period, which included 1 CD renewal and 1 CD purchase, disclosed that quotes were not obtained.</i></p>
	Reporting	<p><i>Our testing of 3 of the 10 investment reports prepared during the audit period disclosed the following: Book/Market Values of investments in Texas Class and the combined Legacy Fund checking and money market (MM) account balance as of June 30, 2021 were underreported by \$32 and \$125,204, respectively.</i></p> <p><i>[Additionally,] the 3 reports did not state the following required information:</i></p> <ul style="list-style-type: none"> <i>• The account or fund or pooled fund for which each individual investment was acquired, i.e., the Legacy Fund.</i> <i>• The compliance of TSBVI's investment portfolio with relevant provisions of the PFIA.</i>
	Training	<p><i>GV § 2256.007(a) requires each TSBVI Board member to attend a PFIA training session within 6 months after taking office. Our testing of 4 Board members whose initial terms began during the audit period disclosed one instance where the member attended a PFIA training 18 months after taking office.</i></p>
Texas Access to Justice Foundation (Foundation)	Contracting	<p><i>Under section 2256.003 of the PFIA, a renewal or extension of the contract with an investment management firm must be made by the governing board of the investing entity by order, ordinance, or resolution. The renewal of the contract with Valley View Consulting was not approved by the governing board.</i></p>
	Compliance	<p><i>Under section 2256.010 of the PFIA, a certificate of deposit is an authorized investment if it is secured in accordance with Chapter 2257. Chapter 2257.023 requires that collateral be in compliance with a written policy approved by the governing body of the public entity. The Foundation's collateral policy requires that letters of credit pledged as collateral should expire no less than three business days beyond the maturity date of the collateralized deposit. The lines of credit pledged as collateral for the Certificates of Deposit #0034, #0865, and #1751 held at Texas Brand Bank expire less than 3 days after the maturity dates of the collateralized deposits.</i></p>

**Agencies That Were Not Fully Compliant with the Act
(From Compliance Audit Reports for the Reporting Period Ending January 1, 2022)**

Agency	Area of Noncompliance	Internal or External Auditor Findings ^a
Water Development Board (Board)	Reporting	<p><i>[Internal Audit found that] for the report ending May 31, 2021, our review found that earnings for the period were inaccurately reported for treasury funds of state pools, the pooled funds total, and the portfolio totals. We also noted the quarterly average yield percentages were inaccurately reported for treasury funds of state pools, the pooled funds total, debt service funds, TWRFA funds, and the portfolio totals. This information is included within the Portfolio Summary by Fund table of the report.</i></p> <p><i>The earnings for the period and the quarterly average yield percentages were reported to be lower in the quarterly investment report, than those calculated and included in the supporting documentation for the report.</i></p> <p><i>Although procedures for preparing quarterly investment reports include a peer review step, it did not identify the error.</i></p>
<p>^a The findings presented are direct excerpts from the agencies' audit reports.</p>		

Source: State Auditor's Office review of the compliance audit reports issued by the agencies' auditors.

Table 11

Higher Education Institutions That Were Not Fully Compliant with the Act (From Compliance Audit Reports for the Reporting Period Ending January 1, 2022)		
Higher Education Institution	Area of Noncompliance	Internal or External Auditor Compliance Audit Findings ^a
Higher Education Institutions That Were Substantially Compliant with the Act		
Midwestern State University (University)	Compliance	<p><i>[Internal Audit found that] no reporting mechanism exists for officers and employees involved in the investment process to report personal business relationships to the level required by PFIA. The University is unable to determine if personal relationships exist for officers and employees involved in the investment process.</i></p> <p><i>[Additionally,] each year during the August Board of Regents meeting, University administration recommends the President, Vice President for Administration and Finance, and Controller be authorized to purchase and sell investment instruments in accordance with PFIA and university policy. However, no officer or employee was specifically designated as an investment officer during the Regents meeting, in University policy or in job descriptions. This issue was discussed with the appropriate management during the Public Funds Investment Act Audit 20-01, and was included in the audit report issued on October 11, 2019.</i></p>
Texas Southern University (University)	Reporting	<p><i>[Internal Audit found that]</i></p> <ul style="list-style-type: none"> • <i>The quarterly reports posted on the University’s Website do not make a distinction between the Endowment Funds and Non-Endowment Funds (Bonds).</i> • <i>Prepared quarterly Investment Reports did not include a summary statement that the reports are “prepared in compliance with Generally Accepted Accounting Principles.”</i> • <i>Management’s internally prepared quarterly reports as well as the Investment Advisor’s Reports did not include a compliance statement as it relates to the investment portfolio’s compliance with all relevant state provisions (TPFIA).</i> • <i>Management’s internally prepared quarterly reports as well as the Investment Advisor’s Reports did not provide a detailed list of individual investments for Non-Endowment (Bond) funds which state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.</i> • <i>The Investment Managers quarterly reports presented do not coincide the quarterly periods for the University’s fiscal year, September 1, 2020 to August 31, 2021 while management’s internally prepared quarterly reports were presented based on the quarters aligned with the University’s fiscal year. Consequent Investment Capital reports covered December 2020, April 2021, June 2021, and September 2021. The Reports should have covered November 2020, February 2021, May 2021, and August 2021 respectively.</i>

**Higher Education Institutions That Were Not Fully Compliant with the Act
(From Compliance Audit Reports for the Reporting Period Ending January 1, 2022)**

Higher Education Institution	Area of Noncompliance	Internal or External Auditor Compliance Audit Findings ^a
Texas State Technical College System (System)	Reporting	<i>[Internal Audit] identified one minor exception related to an interest rate reported on the May 31, 2021, Quarterly Investments Report in which the reported interest was .03% higher than the actual rate... The TexPool account had a value of \$20,765,235 on May 31, 2021. The Quarterly Investment Report indicated the account had an interest rate at the time of .04%. However, the actual interest rate was .01%.</i>
^a The findings presented are direct excerpts from the universities' or system's audit reports.		

Source: State Auditor's Office review of the compliance audit reports issued by the universities' auditors.

Table 12

**Community Colleges That Were Not Fully Compliant with the Act
(From Compliance Audit Reports for the Reporting Period Ending January 1, 2022)**

Community College	Area of Noncompliance	Internal or External Auditor Compliance Audit Findings ^a
Community Colleges That Were Substantially Compliant with the Act		
Cisco College (College)	Compliance	<i>During the 2021 audit of cash balances, instances of uncollateralized deposits were discovered as stated in Note 4 of the Notes to Financial Statements.</i>
Frank Phillips College (Borger Junior College District)	Reporting	<i>During the year ended August 31, 2021, the quarterly and annual investment reports were not posted on the College's website.</i>
^a The findings presented are direct excerpts from the community colleges' audit reports.		

Sources: State Auditor's Office review of the compliance audit reports issued by the community colleges' auditors.

Related State Auditor's Office Reports

Table 13

Related State Auditor's Office Reports		
Number	Report Name	Release Date
21-023	<i>A Report on Agencies', Higher Education Institutions', and Community Colleges' Compliance with Public Funds Investment Act and Rider 5, General Appropriations Act, Reporting Requirements</i>	June 2021
18-029	<i>A Report on Agencies', Higher Education Institutions', and Community Colleges' Compliance with Public Investment Reporting Requirements</i>	May 2018
16-027	<i>A Report on Agencies', Higher Education Institutions', and Community Colleges' Compliance with Public Investment Reporting Requirements</i>	May 2016

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The Honorable Dade Phelan, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, 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.



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