



A Report on

The Audit of the Texas Permanent School Fund Corporation's Fiscal Year 2023 Financial Statements

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

Independent Auditor's Report

In our audit report dated December 20, 2023, we concluded that the Texas Permanent School Fund Corporation's (Corporation's) basic financial statements for fiscal year 2023 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America. The Corporation published our audit report as part of its basic financial statements, which it intends to post on its website at <https://texaspsf.org/reports/>.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards. That report, including responses from management, is attached. In that report, auditors identified a significant control deficiency over the verification of the completeness of asset transfers from the General Land Office to the Corporation under Section 2.15(g) of Senate Bill 1232 and Texas Natural Resources Code, Section 51.011(a-3).

FINDING

A verification process between the Corporation and the General Land Office to assess the completeness of the cash transfers was not implemented.

[Schedule of Findings and Responses | pg. 5](#)

Other Audit-related Items

Our procedures were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on compliance with laws and regulations. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance with laws and regulations.

For more information about this audit, contact Audit Manager Michael Clayton or State Auditor Lisa Collier at 512-936-9500.

January 2024 | Report No. 24-008

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the Corporation's management.

As required by auditing standards, we will also communicate to the Corporation's Board of Directors certain matters related to the conduct of a financial statement audit.



Lisa R. Collier,
CPA, CFE, CIDA,
State Auditor

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditor's Report

Members of the Texas Permanent School Fund Corporation Board of Directors

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Texas Permanent School Fund Corporation (Corporation) as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated December 20, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a significant deficiency.

Robert E. Johnson
Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

Fax:
(512) 936-9400

Internet:
www.sao.texas.gov

SAO Report No. 24-309

Summary of Findings and Responses
Finding Number
2023-1

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the Corporation’s management.

Corporation’s Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Corporation’s response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The Corporation’s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lisa R. Collier, CPA, CFE, CIDA
 State Auditor

December 20, 2023



SCHEDULE OF FINDINGS AND RESPONSES

Reference No. 2023-1

Section I

**SIGNIFICANT
DEFICIENCY**

Transfers of Permanent School Fund Assets to the Corporation

A verification process between the Corporation and the General Land Office to assess the completeness of the cash transfers was not implemented.

The Texas Permanent School Fund Corporation (Corporation) did not have the necessary processes in place to provide reasonable assurance that transfers of cash holdings and mineral and royalty revenues from the General Land Office (GLO) to the Corporation under Section 2.15(g) of Senate Bill 1232 and Texas Natural Resources Code, Section 51.011(a-3), were complete. (See text box for more information about the Corporation.) Specifically, the Corporation relied on the GLO to determine the total cash holdings and the list of mineral and royalty revenues that should be transferred to the Corporation.

Auditors tested the transferred amounts and identified cash balances retained by the GLO. The ownership of these cash balances was indeterminable by auditors and should be evaluated and resolved by the Corporation and the GLO.

Texas Permanent School Fund Corporation (Corporation)

Senate Bill 1232 (87th Legislature, Regular Session) authorized the creation of the Corporation. This legislation resulted in the Permanent School Fund being separated into two separate legal entities: the Corporation and the General Land Office (GLO), which are required to be reported separately in the State of Texas Annual Comprehensive Financial Report (ACFR). The Corporation coordinated with the Texas Education Agency, the GLO, and the Office of the Comptroller of Public Accounts to transfer the majority of the assets belonging to the GLO to the Corporation.

As of December 2023, the Corporation continues to assess whether additional cash transfers from GLO should be made before the Senate Bill 1232 deadline of December 31, 2023.

Once auditors brought this issue to the Corporation's attention, the Corporation began to strengthen its processes to monitor and verify the completeness of the transfers.

Recommendations

The Corporation should continue to improve its processes to monitor and verify that all amounts due are transferred to the Corporation from the GLO.

Management's Response

Thank you for bringing this issue to our attention.

The Corporation is currently working with the General Land Office (GLO) to jointly develop an on-going process for monitoring and verifying that the amounts due to the Corporation are transferred from the GLO.

The Corporation anticipates the process will be developed, documented, and implemented by April 30, 2024.

The Corporation's Senior Managing Director of Investment Finance and Operations will oversee the development and implementation of the process.



Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

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

Texas Permanent School Fund Corporation

Members of the Texas Permanent School Fund Corporation Board of Directors

Mr. Robert Borden, Chief Executive Officer



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