



## OFFICE OF THE STATE AUDITOR

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State Auditor

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### Members of the Legislative Audit Committee:

Results of the individual audits performed by state agencies and universities subject to the Public Funds Investment Act (Act) reported substantial compliance with the requirements of the Act in fiscal year 1997. Independent audit reports of the majority of community college districts also disclosed compliance with the Act.

- Twenty-nine out of 30 state agencies and universities subject to the Act reported overall compliance with the Act and their own investment policies. The status of compliance by the Texas Water Development Board could not be determined because no audit was performed. Several state agencies and universities also reported that significant progress had been made in correcting prior year audit findings.
- Independent audits of 44 investing community college districts reported that 28 districts were in compliance with the Act. The compliance status at the remaining 16 districts could not be determined because the independent auditors' reports did not indicate compliance or noncompliance with the Act.

The Public Funds Investment Act (Chapter 2256, Government Code) requires state and local government investing entities to satisfy requirements regarding:

- Investment policies
- Management controls
- Quarterly investment reports
- Ethics and conflict of interest disclosures
- Training of investment officers
- Broker/dealer acknowledgment of investment policies

The statute requires state agencies subject to the Act to submit an annual audit report on compliance with the Act to the State Auditor.

Although audit reports of Texas Southern University, Stephen F. Austin State University, the Texas National Guard Armory Board, and the Texas Department of Criminal Justice indicated overall compliance with the Act and investment policies, we noted significant items of noncompliance in the reports submitted by these entities. The entities should take the corrective action recommended in their audit reports. Additionally, four state agencies, two universities, and two community college districts identified specific instances of noncompliance with at least one requirement of the Act or their own established investment policies. Specific instances of noncompliance by individual state entities are summarized in Attachments 1 and 2.

SAO Report No. 98-036

During the compilation of the audit reports submitted to the State Auditor's Office, we noted that the following improvements could increase compliance with the Act:

- Sixteen community college districts did not follow *The Annual Financial Reporting Requirements for Texas Public Community Colleges* published by Texas Higher Education Coordinating Board. As a result, the status of their compliance with the Act could not be determined. Districts should ensure that their independent auditors' work covers the Act and that the audit results are adequately disclosed in the report.
- Establish a minimum dollar amount of investments that would exempt certain entities with small amounts of investments from the requirements of the Act. The benefits of complying with the Act may not outweigh the costs associated with compliance and conducting an audit.
- Determine whether the numerous compliance elements of the Act apply to the entities that follow specific investment authority provided in their governing statutes. Although the governing statutes generally specify authorized types of investments, they do not address other requirements of the Act such as training of investment officers, quarterly reports, management controls, and broker/dealer acknowledgement of investment policies. Clarification of the applicability of several provisions of the Act would ensure consistent application of the compliance elements of the Act.
- Clarify whether entities that voluntarily deposit their funds into the State Treasury have to comply with the Act. Because the Act currently states that it does not apply to state funds invested as authorized by the State Treasury of the Comptroller of Public Accounts, a few agencies interpreted that if they choose to deposit funds into the State Treasury then they do not have to comply with the Act. Only entities that are required to deposit their funds into the State Treasury should be exempt from the various requirements of the Act.
- Clarify the definition of the term "public funds" to determine whether the client trust funds, which are maintained by the Texas Youth Commission and the Texas Department of Mental Health and Mental Retardation, are considered public funds. Currently, public funds are defined as the funds in the custody of a state agency that (1) are not required by law to be deposited in the State Treasury and that (2) the investing entity has authority to invest.

- When state agencies and universities hire independent auditors to perform annual audits, there should be consistent reporting guidelines to ensure that the scope of the audit includes compliance with the Act and that the results of the audit are adequately disclosed. Our Office will work with the Comptroller of Public Accounts to develop recommended reporting guidelines.

We would like to thank the management and employees of the state agencies, universities, and community college districts for their cooperation and assistance during our compilation of this information.

Sincerely,

Lawrence F. Alwin, CPA  
State Auditor

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Attachments (2)

cc: Executive directors, presidents, and chancellors of the entities included in this review

Attachment 1:

## Compliance Status of State Agencies and Universities

Investing Entity	Overall Compliance	Instances of Noncompliance	Comments
Angelo State University	Yes		
Board of Law Examiners	Yes	Quarterly Reports	Investment officer did not sign the quarterly report.
Lamar University - Beaumont	Yes		
Lamar University – Orange	Yes	Training Requirements	Investment officer did not receive training.
Lamar University – Port Arthur	Yes		
Lamar University Institute of Technology	Yes		
Midwestern State University	Yes		
Office of the Attorney General	Yes		
Sam Houston State University	Yes		
Southwest Texas State University	Yes	Investment Policies Quarterly Reports	Cash flow projections were prepared for only one year, and they included only estimated fund balances. The weighted average maturity of the portfolio is not included in the quarterly investment report.
State Bar of Texas	Yes		
Stephen F. Austin State University	Yes	Investment Policies Management Controls Quarterly Reports Broker/Dealer Acknowledgment	There were no procedures to obtain safekeeping receipts for investments or to document approval signatures. Monthly reconciliations were not prepared; weekly monitoring of investments was not performed. The required elements of the quarterly reports were not listed. Fulfillment of bidding requirements on purchased investments was not documented; written instrument from each prospective seller was not obtained.
Sul Ross State University	Yes		
Texas Department of Banking	Yes	Management Controls	Funds Management Agreement is not up-to-date.

<b>Investing Entity</b>	<b>Overall Compliance</b>	<b>Instances of Noncompliance</b>	<b>Comments</b>
Texas Department of Criminal Justice	Yes	Quarterly Reports  Training Requirements  Broker/Dealer Acknowledgment	Investment reports were not reviewed for accuracy; market value of repurchase agreements was not reflected on investment reports.  New board members did not receive training in a timely manner.  Not all of the dealers had acknowledged receipt of the investment policies.
Texas Department of Economic Development (formerly Commerce)	Yes		
Texas Department of Housing and Community Affairs	Yes		
Texas Local Government Investment Pool (TexPool)	Yes		
Texas National Guard Armory Board	Yes	Quarterly Reports  Ethics Policies and Conflicts of Interest  Training Requirements  Broker/Dealer Acknowledgment	Maturity date was not included in the quarterly report; certain types of investments were not included in the portfolio composition schedule.  Ethics and/or conflict of interest statements were not on file.  Individuals may not have received training.  Acknowledgment of investment policy was not received.
Texas Parks and Wildlife Department	Yes	Quarterly Reports	Quarterly reports were not submitted on time.
Texas Real Estate Commission	Yes		
Texas School for the Blind and Visually Impaired	Yes		
Texas School for the Deaf	Yes		

<b>Investing Entity</b>	<b>Overall Compliance</b>	<b>Instances of Noncompliance</b>	<b>Comments</b>
Texas Southern University	Yes, except for the noted items	Investment Policies  Management Controls  Quarterly Reports  Training Requirements  Broker/Dealer Acknowledgments	Annual review of the investment policy was not performed.  Investment transactions were not recorded in a timely manner; bond earnings were overstated by \$655,700; there was no support for investment transactions.  Quarterly reports were not submitted.  Minimum training was not provided to board members.  Acknowledgment of investment policies was not signed.
Texas State Technical College System	Yes		
Texas Woman's University	Yes		
Texas Water Development Board			No Audit Performed (Internal auditor position was vacant)
Texas Youth Commission (voluntary compliance with the Act)	Yes	Management Controls	All investment activities have not been documented.
University of North Texas	Yes		
University of North Texas Health Science Center	Yes		

## Compliance Status of Community College Districts

### Overall Compliance with the Act

Amarillo	Houston	San Jacinto
Angelina County	Kilgore	Southwest Texas
Blinn	McLennan	Tarrant County
Central Texas	Midland	Temple
Collin County	Navarro	Texas Southmost <sup>1</sup>
Dallas County	North Harris Montgomery	Tyler
Frank Phillips	Northeast Texas	Victoria County
Galveston <sup>2</sup>	Odessa	Wharton County
Grayson County	Panola	
Hill	Ranger	

### Reporting Requirements Not Followed<sup>3</sup>

Alamo	Laredo	Texarkana
Austin	Lee College <sup>4</sup>	Trinity Valley
Bee County	North Central Texas <sup>4</sup>	Vernon Regional
Brazosport <sup>4</sup>	Paris <sup>4</sup>	Weatherford
Cisco	South Plains <sup>4</sup>	Western Texas
Clarendon		

### No Investments

Alvin	Del Mar	Howard
Mainland	El Paso	South Texas

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<sup>1</sup> One instance of noncompliance was that the investment policies were not adopted until fiscal year 1998.

<sup>2</sup> Instances of noncompliance include (1) quarterly reports that did not contain required information and (2) brokers that had not been presented with the investment policy.

<sup>3</sup> The independent audit reports did not include a statement of compliance or noncompliance as required by *The Annual Financial Reporting Requirements for Texas Public Community Colleges*. Therefore, we were unable to determine whether districts complied with the Act.

<sup>4</sup> Although the independent audit reports did not mention compliance with the Act, a statement of compliance with investment policies was included in the notes to financial statements.