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A Report on

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

June 2012

Report No. 12-035



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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 2011. Additionally, all universities and community college districts fully complied with higher education investment reporting requirements mandated by Rider 5, page III-232, the General Appropriations Act (82nd Legislature) and *A Review of Higher Education Investment Reporting Requirements* (State Auditor's Office Report No. 02-058, July 2002).

With approximately \$54.5 billion¹ in investments as of August 31, 2011, it is important that state agencies, universities, and community college districts comply with statutes and investment reporting requirements designed to help the Legislature, the entities' boards, and the public ensure that state entities manage and disclose their investments appropriately. The following describes compliance by type of state entity for fiscal year 2011:

- **Agencies.** Ten of the 15 agencies subject to the Act were in full compliance with the Act. The Adjutant General's Department was noncompliant with the Act because it did not submit a compliance audit report. The Central Texas Turnpike System at the Department of Transportation, three programs of the Truvested Programs within the Office of the Governor that are subject to the Act, the Juvenile Justice Department, and the Texas Access to Justice Foundation² were substantially compliant with the Act.

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 policies, contracting, training, reporting, and reviewing, as well as to obtain audits of those controls at least once every two years. In addition, Rider 5, page III-232, the General Appropriations Act (82nd 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 and additional reporting requirements were 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 Investment Act, less those entities' investments in the Texas Local Government Investment Pool (TexPool) and the Texas Local Government Investment Pool Prime (TexPool Prime) because those pools are also included in the total.

² The Texas 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.

- **Universities.** Ten of the 17 universities subject to the Act were in full compliance with the Act. The Texas State University System Administration was noncompliant with the Act because it did not submit a compliance audit report. Sul Ross State University and Texas Southern University were minimally compliant with the Act. Midwestern State University, Texas Woman's University, the University of North Texas at Dallas, and the University of North Texas System Administration were substantially compliant with the Act.

In addition, all 17 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, 46 were in full compliance with the Act. Texarkana College was noncompliant with the Act because it did not comply with many requirements for its policies, contracting, training, reporting, reviewing, or auditing. The Austin Community College District, Frank Phillips College, and Laredo Community College were substantially compliant with the Act.

In addition, all 50 community college districts were in full compliance with the higher education investment reporting requirements.

- **Universities not subject to the Act but still subject to the higher education investment reporting requirements.** Four university systems³ have asserted that they 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 agencies, universities, and community college districts for compliance with the Act, auditors determined that some entities had not fully complied by the initial due date of January 1, 2012. In addition, auditors determined that a significant number of universities and community college districts had not fully complied with the higher education investment reporting requirements by the relevant due dates, the latest of which was February 29, 2012. However, after auditors contacted them and established a new due date of April 18, 2012, to allow them to achieve compliance, most of those entities either submitted the required information to the State Auditor's Office or posted it on their Web sites.

The State Auditor maintains a Web site that discusses some of the investment requirements and includes tools to assist entities and auditors in performing their compliance audits. The address for this Web site is <http://www.sao.state.tx.us/Resources/IntAud/pubfunds.html>.

³ 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 project were to:

- Determine whether 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, 2012.
- Determine whether higher education institutions complied with Rider 5, page III-232, the General Appropriations Act (82nd Legislature) and 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 project covered investment disclosures and reports from February 28, 2010, through April 18, 2012, the due date that auditors established for agencies, universities, and community college districts to achieve full compliance after determining that some of them had not fully complied and needed more guidance.

The methodology for this project consisted of (1) collecting and evaluating evidence regarding compliance with the Act included in the state entities' most recent audit reports, (2) reviewing the universities' and community college districts' Web sites and documents that those entities submitted to the State Auditor's Office for the required investment disclosures, and (3) compiling the state entities' investment balances individually and by type of entity. In addition, auditors communicated with state agencies, universities, and community college districts in an effort to clarify the relevant requirements. No work on information technology was performed.

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.

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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 those areas, and compliance with those requirements must be tested by the state entities' internal or external auditors at least every two years. The results of the audit 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 contained many findings that were significant to policies, contracting, training, reporting, reviewing, or auditing.

Agencies' Compliance with the Act

Ten of the 15 state agencies subject to the Act were in full compliance in fiscal year 2011 based upon reviews of the audit reports issued by the agencies' internal or external auditors. The Adjutant General's Department was noncompliant with the Act because it did not submit a compliance audit report. The Central Texas Turnpike System at the Department of Transportation, three programs of the Trusteed Programs within the Office of the Governor that are subject to the Act, the Juvenile Justice Department, and the Texas Access to Justice Foundation were substantially compliant with the Act (see Table 1 on the next page for additional details regarding those five agencies' compliance). The 15 agencies reported investments totaling more than \$18.2 billion as of August 31, 2011 (see Table 7 on page 12 for more information).

Table 1

Agencies That Were Not Fully Compliant with the Public Funds Investment Act		
Agency	Area(s) of Non-compliance	Comments
Agency That Was Noncompliant with the Act		
Adjutant General's Department	Auditing	This agency did not submit a compliance audit report.
Agencies That Were Substantially Compliant with the Act		
Department of Transportation	Policies	The Central Texas Turnpike System's certification letters from external investment managers did not include acknowledgements required by the Act.
Trusted Programs within the Office of the Governor ^a	Training	The Governor's Mansion Restoration Fund and State Agency Council did not comprehensively document their compliance with training requirements.
	Reporting	The Governor's Mansion Restoration Fund, State Agency Council, and Texas Small Business Industrial Development Corporation did not comprehensively document their compliance with reporting requirements.
	Reviewing	The Texas Small Business Industrial Development Corporation's meeting minutes did not clearly document periodic reviews of its investment policy.
Juvenile Justice Department	Training	Two of the agency's board members did not complete training in a timely manner.
Texas Access to Justice Foundation	Contracting	The contract with the foundation's investment management firm, dated December 31, 1990, did not state a termination date of the contract. However, the contract was bid out in January 2007.
	Reporting	The quarterly reports presented to the governing body did not include the asset value at the beginning of the reporting period.
^a Three programs of the Trusted Programs within the Office of the Governor are subject to the Act. The findings presented in this table were reported in an <i>Internal Audit of Management Controls and Adherence to Established Investment Policies</i> , Office of the Governor Report No. 12-01, April 2012.		

Source: Findings listed are based upon reviews of audit reports issued by the agencies' internal or external auditors.

Table 2 lists the 10 agencies that were fully compliant with the Act.

Table 2

Agencies in Full Compliance with the Public Funds Investment Act
Board of Law Examiners
Department of Criminal Justice
Department of Housing and Community Affairs
Real Estate Commission
School for the Blind and Visually Impaired
State Bar of Texas
Texas Local Government Investment Pool (TexPool)
Texas Local Government Investment Pool Prime (TexPool Prime)
Texas State Affordable Housing Corporation
Water Development Board

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

Universities' Compliance with the Act

Ten of the 17 universities subject to the Act were in full compliance in fiscal year 2011. The 17 universities reported investments totaling almost \$1.6 billion as of August 31, 2011 (see Table 8 on page 14 for more information).

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 contained many findings that were significant to policies, contracting, training, reporting, reviewing, or auditing.

Auditors assessed compliance with the Act after reviewing the audit reports issued by the universities' internal auditors. The Texas State University System Administration was noncompliant with the Act because it did not submit a compliance audit report. Sul Ross State University and Texas Southern University were minimally compliant with the Act and Midwestern State University, Texas Woman's University, the University of North Texas at Dallas, and the University of North Texas System Administration were substantially compliant with the Act (see Table 3 for additional details regarding those seven universities' compliance).

Table 3

Universities That Were Not Fully Compliant with the Public Funds Investment Act		
University	Area(s) of Non-compliance	Comments
University That Was Noncompliant with the Act		
Texas State University System Administration	Auditing	This university did not submit a compliance audit report.
Universities That Were Minimally Compliant with the Act		
Sul Ross State University	Reporting	This university did not include its investment officer's contact information on the published reports.
	Reporting	This university's market value for TexPool was inaccurate and the market value for the collateralized mortgage obligations was updated only annually.
	Reporting	This university's quarterly investment reports did not contain the required statement of compliance.
Texas Southern University	Reviewing	This university's investment policy was not submitted to the board of regents during fiscal year 2011.
	Reporting	This university's fiscal year 2011 quarterly investment reports were not submitted to the board of regents. In addition, the June 2011 and September 2011 quarterly investment reports were missing required items.
	Reviewing	This university did not provide all broker confirmations that internal auditors requested.

Universities That Were Not Fully Compliant with the Public Funds Investment Act		
University	Area(s) of Non-compliance	Comments
	Contracting	This university had one investment advisory agreement that was outdated.
	Contracting	This university's investment advisors and managers did not complete annual disclosure statements in a timely manner for fiscal year 2011.
Universities That Were Substantially Compliant with the Act		
Midwestern State University	Training	This university had one investment officer that did not meet training requirements.
	Reporting	This university's fourth quarter investment report was not posted online.
Texas Woman's University	Policies	This university's investment policies did not address the quality and capability of investment management.
	Reporting	This university's investment policy was not submitted to the Legislative Budget Board and the State Auditor by December 31, 2010.
University of North Texas at Dallas	Reporting	This university had not established an investment disclosure Web page in a timely manner.
	Reporting	This university's investment disclosure Web site did not include contact information for the University of North Texas Foundation.
University of North Texas System Administration	Reporting	This university's Web site did not reference or link to audit reports or an annual investment report for 2010.
	Reporting	This university's annual investment report for 2011 on the Web site was not linked to supporting documentation.

Source: Findings listed are based upon reviews of the audit reports issued by the universities' internal auditors.

Universities' Compliance with Higher Education Investment Reporting Requirements

The higher education investment reporting requirements, as outlined in Rider 5, page III-232, the General Appropriations Act (82nd Legislature) and *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 using the format prescribed by the State Auditor.
- Disclose the following information on the entity's Web site:
 - ♦ Quarterly investment reports for the most recent eight quarters.
 - ♦ Disclosure on the use of outside investment advisors or managers.

Definitions of Compliance with the Higher Education Investment Reporting Requirements

- Fully Compliant: The university's disclosures met all reporting requirements.
- Substantially Compliant: The university's disclosures met most reporting requirements, with minor omissions.
- Minimally Compliant: The university's investment disclosures contained some significant omissions.
- Noncompliant: The university's investment disclosures omitted most or all of the required disclosures and reports.

- ♦ Disclosure on the use of soft dollar agreements.⁴
- ♦ Disclosure on associations with independent endowments or foundations.
- ♦ Current investment policies.

In reviewing universities for compliance with the higher education investment reporting requirements, auditors determined that all 17 universities were fully compliant.

Table 4 lists the universities that were fully compliant with both the Act and the higher education investment reporting requirements.

Table 4

Universities in Full Compliance with the Public Funds Investment Act and Higher Education Investment Reporting Requirements
Lamar Institute of Technology
Lamar State College - Orange
Lamar State College - Port Arthur
Lamar University
Sam Houston State University
Stephen F. Austin State University
Texas State Technical College
Texas State University - San Marcos
University of North Texas
University of North Texas Health Science Center at Fort Worth

⁴ Soft dollar agreements involve an outside investment manager directing securities transactions to a specific investment broker, in exchange for which the broker provides investment research or other products or services to the investment manager.

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

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.
- Noncompliant: The required compliance report was not provided or contained many findings that were significant to policies, contracting, training, reporting, reviewing, or auditing.

Community College Districts' Compliance with the Act

Of the 50 community college districts, 46 were in full compliance with the Act in fiscal year 2011. Auditors assessed compliance with the Act after reviewing the audit reports issued by the colleges' external auditors. These community college districts reported investments totaling approximately \$2.3 billion as of August 31, 2011 (see Table 9 on page 16 for more information).

Table 5 provides information on Texarkana College, which was noncompliant with the Act, and the Austin Community College District, Frank Phillips College, and Laredo Community College, which were substantially compliant with the Act.

Table 5

Community College Districts That Were Not Fully Compliant with the Public Funds Investment Act		
Community College District	Area(s) of Non-compliance	Comments
Community College District That Was Noncompliant with the Act		
Texarkana College	Reporting	Disclosures in this community college district's investment policy erroneously indicated that there was no use of outside investment advisors or managers.
	Policies	This community college district's investment policy did not discuss diversification in investments or restrict the amounts that may be invested in any one type of investment.
	Reviewing	This community college district's board of trustees had not adopted a formal timetable or procedures for annually reviewing and revising the investment policy. This community college district last reviewed the investment policy on its Web site on October 27, 2009.
	Auditing	This community college district did not have a formal procedure to help ensure that a compliance audit of management controls and adherence with established investment policies was completed biennially.
	Policies	This community college district's Health Benefit Trust invested in fixed income securities with maturities that exceeded 10 years, even though the community college district's investment policy stated that the community college district should not purchase investments with maturities exceeding 10 years.
	Policies	Not all of the investments within this community college district's Health Benefit Trust were insured by the Federal Deposit Insurance Corporation (FDIC), even though the community college district's investment policy states that all deposits must be fully insured by the FDIC.

Community College Districts That Were Not Fully Compliant with the Public Funds Investment Act

Community College District	Area(s) of Non-compliance	Comments
	Training	This community college district had not provided investment training approved by the Higher Education Coordinating Board to members of its board of trustees.
	Reporting	This community college district did not adjust its investments on a monthly basis as required. During fiscal year 2011, the college adjusted the investments at August 31, 2011, for a two-year period.
	Reviewing	This community college district's auditors were unable to obtain forms signed by employees or members of the board of trustees in a position to affect the investments to attest that they were independent and non-biased.
	Contracting	This community college district did not provide a copy of the investment policy to those seeking to provide investment services, nor did it obtain from third parties a written acknowledgement that they had received and reviewed an investment policy and that they had reasonable procedures and controls to preclude imprudent investments.
	Reporting	This community college district did not submit written investment transaction reports to the board of trustees on a monthly basis, and the investment transaction reports the community college district submitted did not appear to contain the following required information: signatures of each investment officer, maturity dates on each of the investments, and a statement that the investment portfolio was in compliance with the community college district's investment strategy.
Community College Districts That Were Substantially Compliant with the Act		
Austin Community College District	Policies	This community college district had investments that exceeded the percentage of the portfolio that was allowed by its investment policy.
Frank Phillips College	Policies	This community college district had a certificate of deposit at a financial institution that was partially uninsured and uncollateralized.
Laredo Community College	Training	This community college district had a new governing board member who did not complete the required investment training within six months of taking office.

Source: Findings listed are based on reviews of the audit reports issued by the community college districts' external auditors.

Definitions of Compliance with the Higher Education Investment Reporting Requirements

- Fully Compliant: The community college district’s disclosures met all reporting requirements.
- Substantially Compliant: The community college district’s disclosures met most reporting requirements, with minor omissions.
- Minimally Compliant: The community college district’s investment disclosures contained some significant omissions.
- Noncompliant: The community college district’s investment disclosures omitted most or all of the required disclosures and reports.

Community College Districts’ Compliance with Higher Education Investment Reporting Requirements

In reviewing community college districts for compliance with the higher education investment reporting requirements (see discussion on page 5 for more information about those requirements), auditors determined that all 50 community college districts were in full compliance with the requirements.

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
Blinn College
Brazosport College District
Central Texas College District
Cisco Junior College District
Clarendon College
Coastal Bend College
College of the Mainland
Collin County Community College District
Dallas County Community College District
Del Mar College
El Paso County Community College District
Galveston Community College District
Grayson County College
Hill College District
Houston Community College System
Howard County Junior College District
Kilgore Junior College District
Lee College District
Lone Star College System
McLennan County Junior College District
Midland Community College District
Navarro College District

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

North Central Texas Community College District
Northeast Texas Community College
Odessa Junior College District
Panola College
Paris Junior College
Ranger College
San Jacinto College District
South Plains College
South Texas College
Southwest Texas Junior College
Tarrant County College District
Temple College
Texas Southmost College
Trinity Valley Community College
Tyler Junior College District
Vernon College
Victoria County Junior College District
Weatherford College of the Parker County Junior College District
Western Texas College
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 (see discussion on page 5 of this report for more information about those requirements) but may not be subject to the Act. Specifically, any university that had total endowments of at least \$95 million in book value as of May 1, 1995, is exempt from complying with the Act. The following university systems assert that this exemption applies to all universities that are part of their systems: the Texas A&M University System, the Texas Tech University System, the University of Houston System, and The University of Texas System. Those four university systems were in full compliance with higher education investment reporting requirements. (The university systems reported for all of the universities within their systems.) Those university systems reported investments totaling approximately \$34.4 billion as of August 31, 2011 (see Table 10 on page 19 for more information).

Summary of Agency, University, and Community College District Investments

The state agencies, universities, and community college districts that auditors reviewed reported different types of investments as of August 31, 2011. Specifically, universities that are not subject to the Act invested very differently from the other types of state entities that are subject to the Act. For example:

- Universities that are not subject to the Act had 51.41 percent of their portfolios invested in “other investments,” including real estate, private equity, and hedge funds (see Figure 4 on page 20).
- Universities that are subject to the Act had 4.45 percent of their portfolios invested in “other investments” (see Figure 2 on page 15).
- Community college districts that are subject to the Act had 1.27 percent of their portfolios in “other investments” (see Figure 3 on page 18).
- State agencies that are subject to the Act had 0.09 percent of their portfolios in “other investments” (see Figure 1 on page 13).

Table 7 lists the total investments as of August 31, 2011, reported by state agencies subject to the Act.

Table 7

Total Agency Investments ^a	
Agency	Market Value of Investments as of August 31, 2011
Adjutant General’s Department	\$ 2,554,388.89
Board of Law Examiners	1,226,345.00
Department of Criminal Justice ^b	22,802,323.51
Department of Housing and Community Affairs	1,568,388,249.95
Department of Transportation	429,635,827.29
Juvenile Justice Department	594,000.00
Real Estate Commission	1,476,859.40
School for the Blind and Visually Impaired	1,144,283.88
State Bar of Texas ^c	32,964,738.00
Texas Access to Justice Foundation	12,121,937.38
Texas Local Government Investment Pool (TexPool)	14,442,000,866.00
Texas Local Government Investment Pool Prime (TexPool Prime)	1,016,623,520.00
Texas State Affordable Housing Corporation	3,322,130.00
Trusteed Programs within the Office of the Governor	24,079,695.51

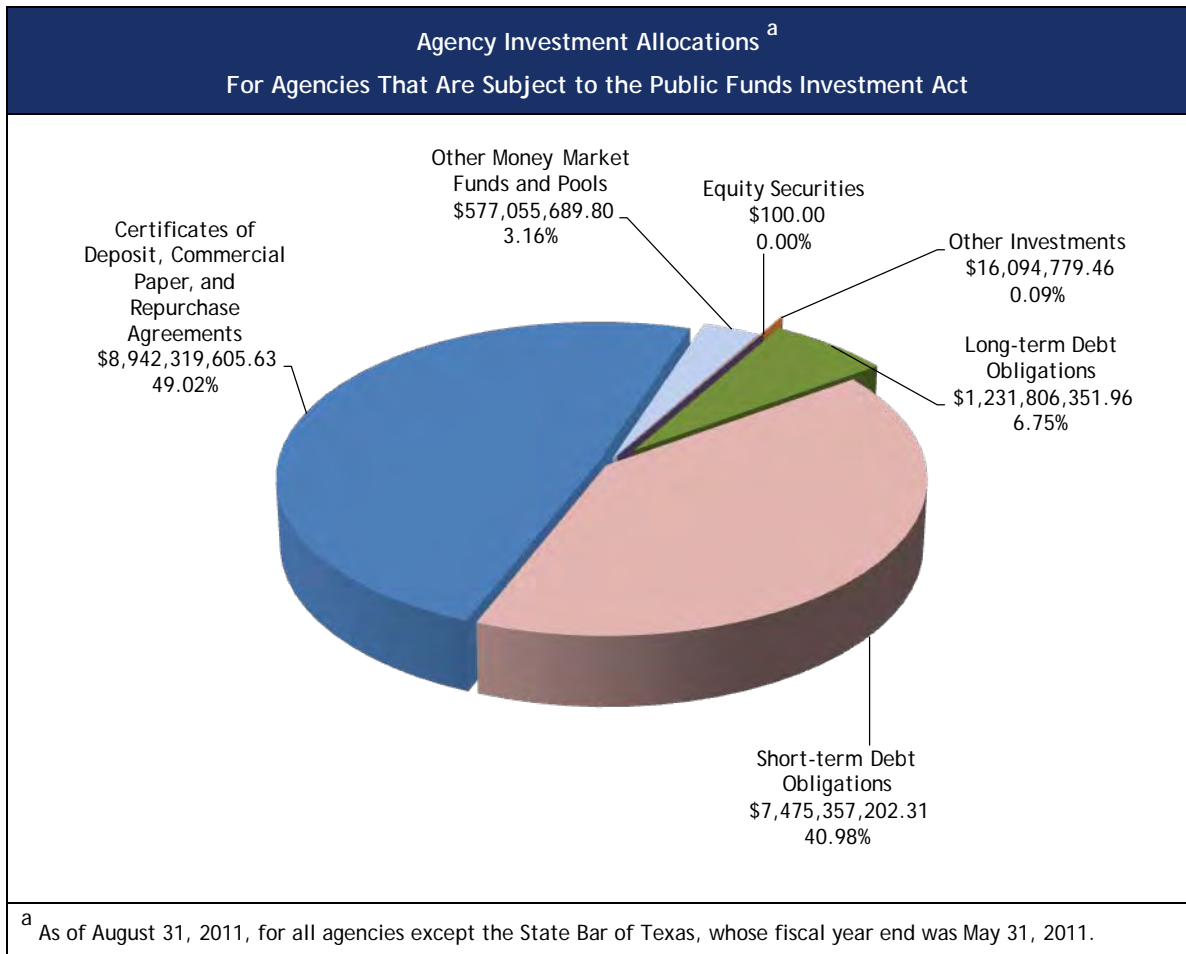
Total Agency Investments ^a	
Agency	Market Value of Investments as of August 31, 2011
Water Development Board	683,698,564.35
Total	\$ 18,242,633,729.16

^a This table includes investment information only for agencies that are subject to the Act.
^b Excludes \$2,239,127.40 in TexPool and TexPool Prime to avoid duplication in the overall total of investments.
^c Data is as of May 31, 2011, which is the State Bar of Texas's fiscal year end.

Source: Unaudited annual financial reports prepared by the agencies; unaudited annual investment report for the Texas Access to Justice Foundation; and annual financial reports audited by other auditors for the State Bar of Texas, TexPool, TexPool Prime, and the Texas State Affordable Housing Corporation.

Figure 1 shows the agency investment allocations as of August 31, 2011 (see Appendix 2 for definitions of specific asset classes).

Figure 1



Source: Unaudited annual financial reports prepared by the agencies; unaudited annual investment report for the Texas Access to Justice Foundation; and annual financial reports audited by other auditors for the State Bar of Texas, TexPool, TexPool Prime, and the Texas State Affordable Housing Corporation.

Table 8 lists the total investments as of August 31, 2011, reported by universities that are subject to the Act.

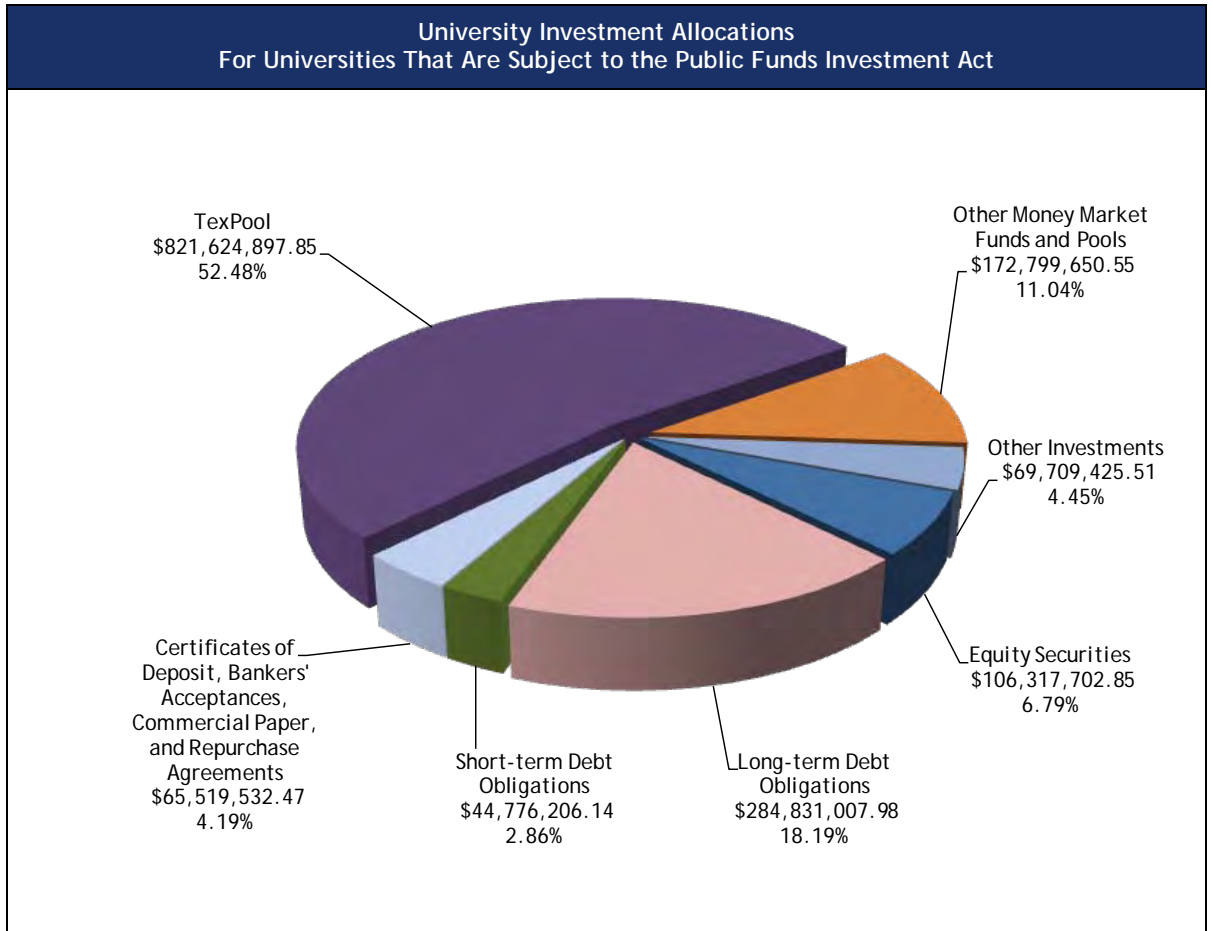
Table 8

Total Investments for Universities That Are Subject to the Public Funds Investment Act	
University	Market Value of Investments as of August 31, 2011
Lamar Institute of Technology	\$ 2,333,059.00
Lamar State College - Orange	13,407,035.28
Lamar State College - Port Arthur	4,221,883.47
Lamar University	36,015,399.07
Midwestern State University	48,753,942.50
Sam Houston State University	150,252,969.12
Stephen F. Austin State University	61,754,899.32
Sul Ross State University	25,109,061.44
Texas Southern University	77,484,174.00
Texas State Technical College	14,116,593.00
Texas State University - San Marcos	465,655,198.34
Texas State University System Administration	8,166,741.81
Texas Woman's University	190,187,218.00
University of North Texas	332,617,832.00
University of North Texas at Dallas	6,825,502.00
University of North Texas Health Science Center at Fort Worth	114,562,525.00
University of North Texas System Administration	14,114,390.00
Total	\$ 1,565,578,423.35

Source: Unaudited annual investment reports provided by the universities.

Figure 2 shows the investment allocations as of August 31, 2011, for universities that are subject to the Act.

Figure 2



Source: Unaudited annual investment reports provided by the universities.

Table 9 lists the total investments as of August 31, 2011, reported by community college districts.

Table 9

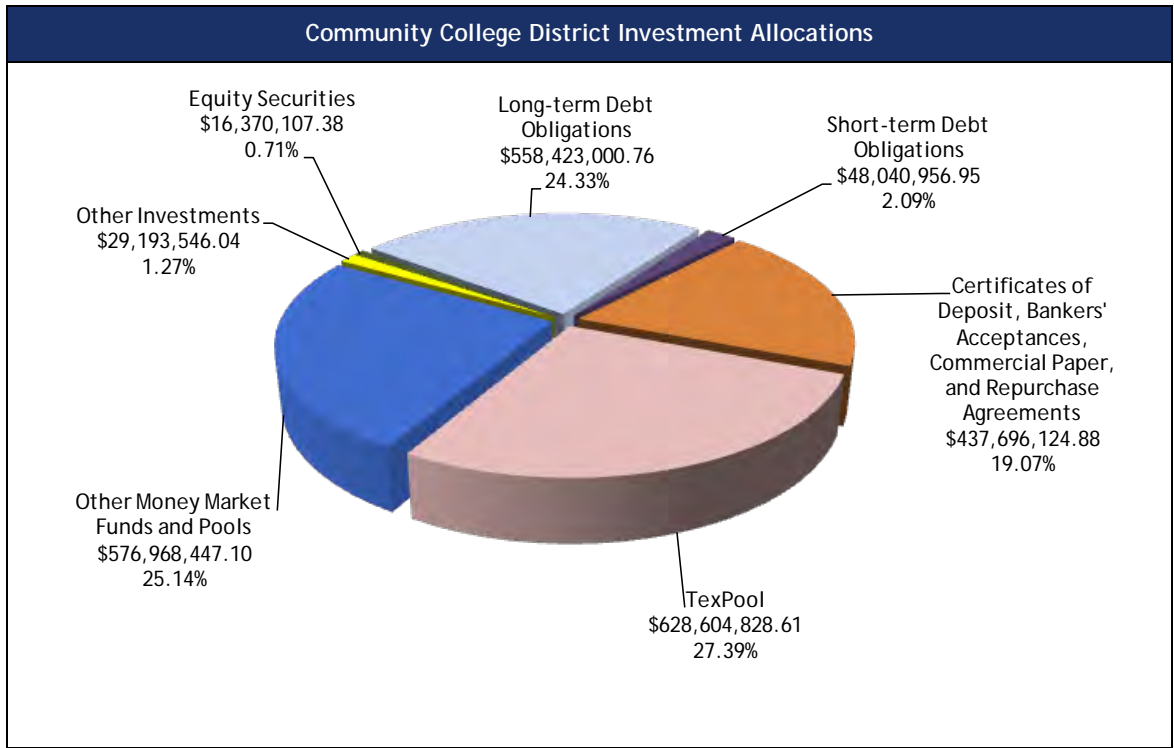
Total Community College District Investments	
Community College District	Market Value of Investments as of August 31, 2011
Alamo Community College District	\$ 201,240,589.00
Alvin Community College	6,575,051.00
Amarillo College	44,401,825.00
Angelina County Junior College District	6,770,702.00
Austin Community College District	114,082,439.00
Blinn College	30,227,775.00
Brazosport College District	6,251,244.00
Central Texas College District	116,649,668.00
Cisco Junior College District	2,574,925.00
Clarendon College	4,593,925.65
Coastal Bend College	4,495,680.36
College of the Mainland	16,281,156.00
Collin County Community College District	212,819,249.00
Dallas County Community College District	224,628,569.00
Del Mar College	56,692,274.58
El Paso County Community College District	81,597,747.00
Frank Phillips College	1,132,081.00
Galveston Community College District	10,072,483.00
Grayson County College	10,607,710.00
Hill College District	6,677,078.32
Houston Community College System	73,906,739.00
Howard County Junior College District	13,435,967.00
Kilgore Junior College District	8,434,506.08
Laredo Community College	0.00
Lee College District	9,515,391.00
Lone Star College System	165,608,456.00
McLennan County Junior College District	14,871,617.00
Midland Community College District	31,680,528.00
Navarro College District	8,748,001.00
North Central Texas Community College District	15,962,520.00
Northeast Texas Community College	3,919,829.00
Odessa Junior College District	92,666,630.00
Panola College	12,477,216.00
Paris Junior College	10,296,084.00

Total Community College District Investments	
Community College District	Market Value of Investments as of August 31, 2011
Ranger College	452,863.47
San Jacinto College District	267,030,176.00
South Plains College	14,266,033.74
South Texas College	88,861,748.00
Southwest Texas Junior College	5,661,499.44
Tarrant County College District	196,454,448.00
Temple College	29,712,594.00
Texarkana College	6,757,446.00
Texas Southmost College	62,719.00
Trinity Valley Community College	3,556,586.00
Tyler Junior College District	20,255,638.00
Vernon College	11,510,500.00
Victoria County Junior College District	2,512.00
Weatherford College of the Parker County Junior College District	9,076,886.08
Western Texas College	891,921.00
Wharton County Junior College District	20,847,785.00
Total	\$ 2,295,297,011.72

Source: Unaudited annual investment reports provided by the community college districts.

Figure 3 shows the community college district investment allocations as of August 31, 2011.

Figure 3



Source: Unaudited annual investment reports provided by the community college districts.

Table 10 lists the total investments, excluding securities lending collateral and investment derivatives (which auditors did not consider to be investments), reported by universities that are not subject to the Act but that are subject to higher education investment reporting requirements.

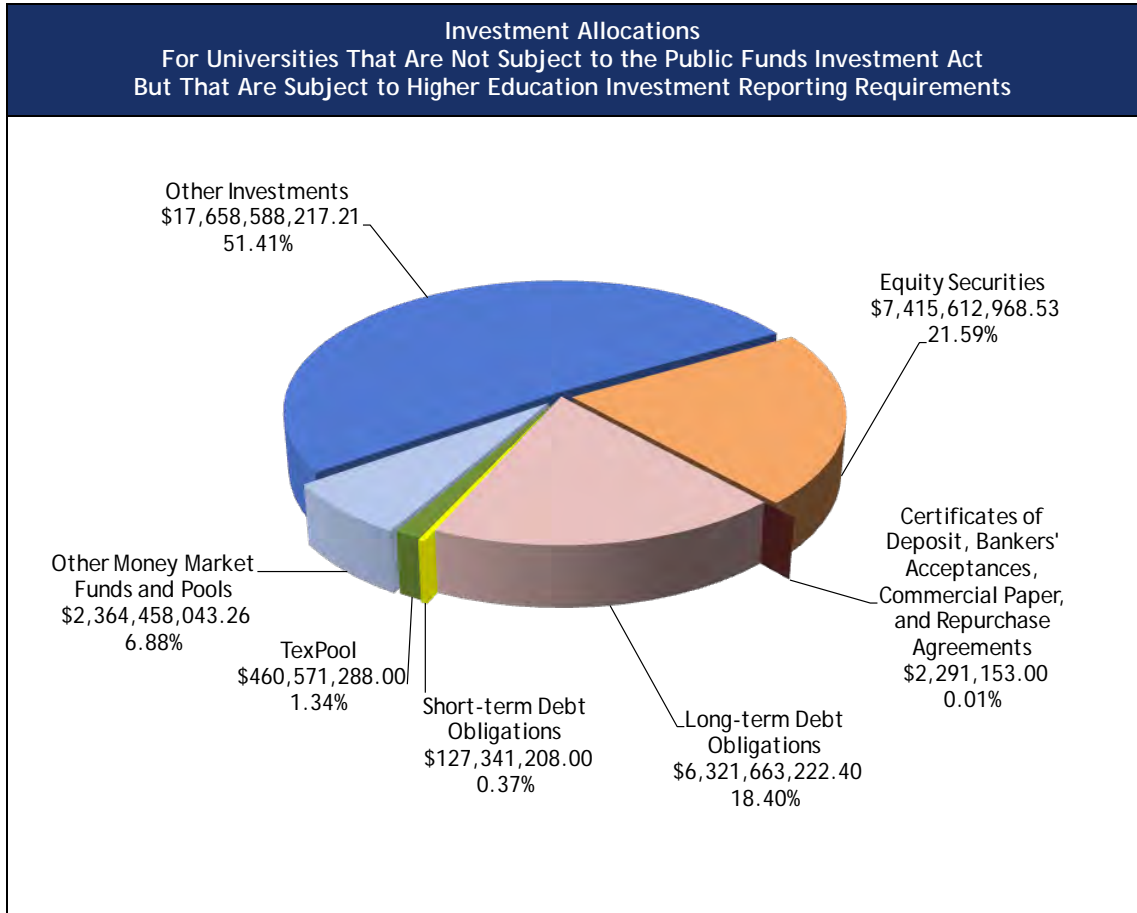
Table 10

Total Investments for Universities That Are Not Subject to the Public Funds Investment Act But That Are Subject to Higher Education Investment Reporting Requirements ^a	
University	Market Value of Investments as of August 31, 2011
Texas A&M University System	\$ 2,928,185,165.56
Texas Tech University System	1,496,034,283.00
University of Houston System	1,068,418,458.00
The University of Texas System	28,857,888,193.84
Total	\$ 34,350,526,100.40
^a Excluding securities lending collateral and investment derivatives that auditors did not consider to be investments.	

Source: Unaudited annual investment reports provided by the universities.

Figure 4 shows the investment allocations as of August 31, 2011, for universities that are not subject to the Act but that are subject to higher education investment reporting requirements.

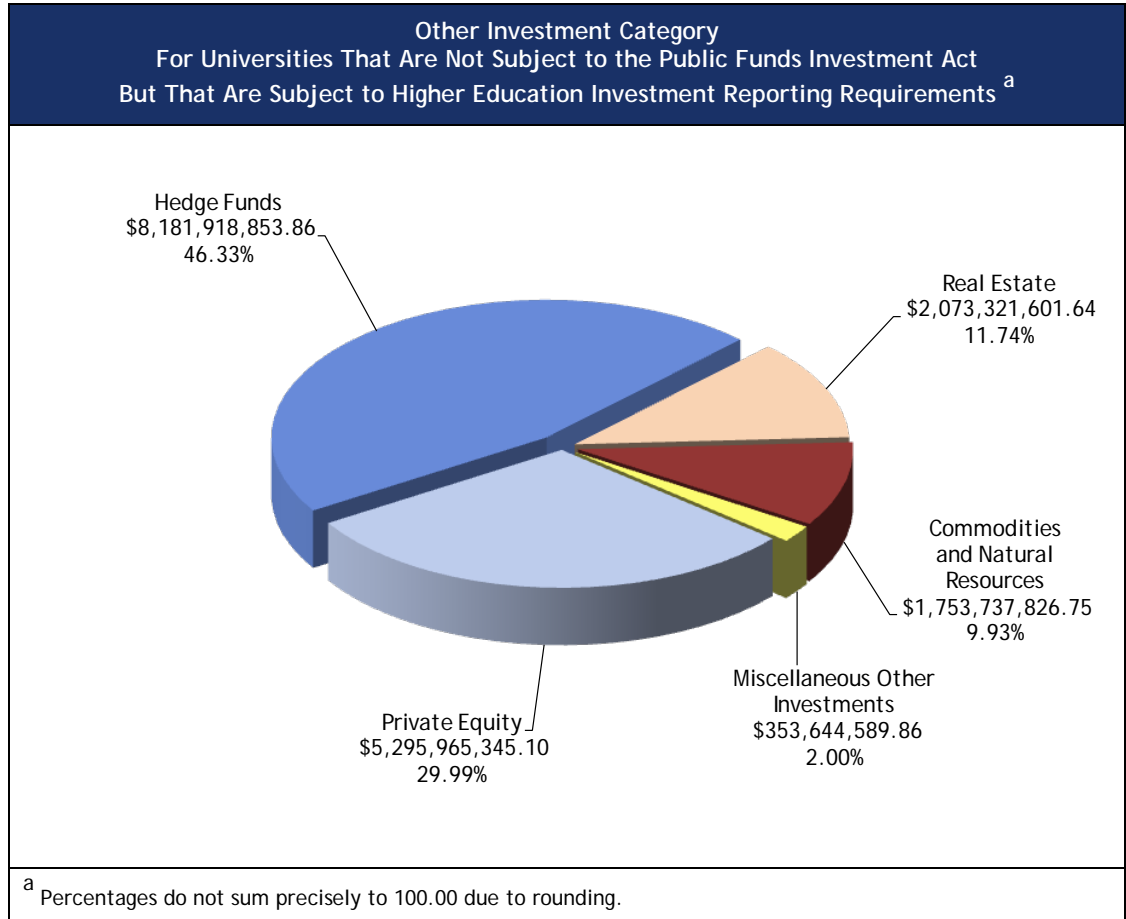
Figure 4



Source: Unaudited annual investment reports provided by the universities.

As shown in Figure 4 above, “Other Investments” comprised more than 51 percent of the overall portfolio for universities that are not subject to the Act but that are subject to higher education investment reporting requirements. Figure 5 shows those other investments.

Figure 5



Source: Unaudited annual investment reports provided by the universities.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this project were to:

- Determine whether state agencies and most higher education institutions complied with the Public Funds Investment Act (Act) requirement to submit a compliance report to the State Auditor's Office by January 1, 2012.
- Determine whether higher education institutions complied with Rider 5, page III-232, the General Appropriations Act (82nd Legislature) and 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 project covered investment disclosures and reports from February 28, 2010, through April 18, 2012, the due date auditors established for agencies, universities, and community college districts to achieve full compliance after determining that some of them had not fully complied and needed more guidance.

Methodology

The methodology for this project consisted of (1) collecting and evaluating evidence regarding compliance with the Act included in the agencies', universities', and community college districts' most recent audit reports, (2) reviewing and evaluating the information on the universities' and community college districts' Web sites and the documents that those entities submitted to the State Auditor's Office for the required investment disclosures, and (3) compiling the state entities' investment balances individually and by type of entity. In addition, auditors communicated with state agencies, universities, and community college districts in an effort to clarify the relevant requirements. No work on information technology was performed.

Information collected and reviewed included the following:

- Annual financial reports.
- Annual investment reports.

- Compliance audit reports issued by an entity's internal or external auditors.
- Investment policies of universities and community college districts.
- Investment disclosures on university and community college district Web sites.

Procedures and tests conducted included the following:

- Reviewing compliance audit reports and summarizing any findings reported.
- Determining whether annual investment reports for each university and community college district were submitted to the State Auditor or posted to the entity's Web site.
- Determining whether the annual investment reports for each university and community college district used the format prescribed by the State Auditor.
- Determining whether investment policies for each university and community college district were submitted to the State Auditor or posted to the entity's Web site.
- Determining whether the eight most recent quarterly investment reports for each university and community college district were posted to the entity's Web site.
- Determining whether each university and community college posted its answers to the three questions regarding outside investment managers, soft dollar arrangements, and foundations on its Web site.
- Compiling investment balances for each state entity individually and by type of entity.

Criteria used included the following:

- The Public Funds Investment Act (Texas Government Code, Chapter 2256).
- Rider 5, page III-232, the General Appropriations Act (82nd Legislature).
- *A Review of Higher Education Investment Reporting Requirements* (State Auditor's Office Report No. 02-058, July 2002).

Project Information

Project fieldwork was conducted from February 2012 through May 2012. 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 this project:

- Anthony W. Rose, MPA, CPA, CGFM (Project Manager)
- Robert P. Burg, MPA, CPA, CFE
- Dana Musgrave, MBA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)

Definitions of Asset Classes

Table 11 provides the definitions of different asset classes.

Table 11

Definitions of Asset Classes
A1/P1 Commercial Paper: Commercial paper rated A1, P1, F1 (or higher). Lower rated commercial paper should be listed under "other" short-term investments.
Annuities: A type of investment sold by insurance companies. Includes fixed and variable annuities.
Bank Deposits: Money held in bank, savings bank, or credit union accounts.
Bond Mutual Funds: Funds that invest in debt securities with a variable net asset value per share.
Cash Held at State Treasury: All balances held in the State Treasury or the Texas Treasury Safekeeping Trust Company.
CDs/BAs: Certificates of deposit with a maturity under one year and bankers' acceptances.
Collateralized Mortgage Obligations (CMOs): A security backed by a pool of mortgage pass-throughs, separated into several investor classes, each designed to meet specific investment objectives for maturity and risk. (CMOs are not allowable investments under the Public Funds Investment Act. However, state entities may hold noncompliant CMOs that were purchased prior to September 1, 1995.)
Collectibles: Items such as art, stamps, coins, historic documents, and memorabilia.
Collective Endowment Funds: Long-term endowment funds managed by a third party that combine investments from multiple investors (the Common Fund is an example).
Commodities: Includes things such as oil and gas, timber land, and precious metals.
Corporate Obligations: All non-governmental debt issues classified by rating. For issues with split ratings, lower ratings are reported. Equivalent ratings from other rating agencies such as Fitch may be used. <ul style="list-style-type: none"> ▪ Highly Rated Corporate Issues: Issues rated AAA or AA by Standard and Poor's or Aaa or Aa by Moody's. ▪ Investment Grade Corporate Issues: Issues rated A or BBB by Standard and Poor's or A or Baa by Moody's. ▪ NR/High Yield Issues: Non-Rated (NR rated) issues and issues rated BB or lower by Standard and Poor's and Ba or lower by Moody's.
Equity Mutual Funds: Mutual funds that invest in stocks. Includes balanced funds (which include a mix of stocks and bonds).
Equity Securities: Stocks.
Foreign Issued Obligations: Securities that are issued outside of the U.S. by non-U.S. issuers (in U.S. dollars or foreign currency). Includes U.S. issued securities that are in foreign currencies.
GLCs: Guaranteed investment contracts issued by insurance companies.
Mortgage Pass-throughs: Residential mortgage securities pooled together and marketed by governmental agency issuers such as the Government National Mortgage Association (GNMA or Ginnie Mae), Federal National Mortgage Association (FNMA or Fannie Mae), and Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac). (Does not include private issues, which should be included with CMOs, and pooled commercial real estate mortgages, which should be included with other asset-backed bonds.)
Municipal Obligations: State, county, municipality, or public authority issues.
Other Asset-backed Bonds: Securities backed by pools of assets such as credit card loans, commercial real estate loans, and auto loans.
Other Equity Securities: Preferred stocks, foreign stocks, and non-publicly traded stocks.
Other Money Market Funds and Pools: Money funds and pools with a constant \$1.00 per share net asset value objective.
Private Equity: Includes venture capital, hedge funds, leveraged buyout, mezzanine, and strategically traded securities that are held directly or through investment vehicles such as limited partnerships.

Definitions of Asset Classes

Real Estate: Includes real estate held for investment either directly or through investment vehicles such as limited partnerships.

Repurchase Agreements: Short-term investments secured by marketable securities.

Short-term Investments: All debt investments with a maturity (as of purchase date) of less than one year and all cash and bank deposits.

Texas Local Government Investment Pool (TexPool) Investments: Investments in TexPool and TexPool Prime. Includes other Texas pool investments with other money market funds.

U.S. Common Stocks: Includes only publicly traded stocks.

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

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

Source: *A Review of Higher Education Investment Reporting Requirements* (State Auditor's Office Report No. 02-058, July 2002) and *Dictionary of Finance and Investment Terms*, Barron's Financial Guides, eighth edition, 2010.

Related State Auditor's Office Work

Related SAO Work		
Number	Product Name	Release Date
10-027	A Review of State Agency, University, and Community College District Compliance with the Public Funds Investment Act and Investment Reporting Requirements	April 2010
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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The Honorable Thomas “Tommy” Williams, Member, Texas Senate

The Honorable Jim Pitts, House Appropriations Committee

The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

All State Entities Mentioned in This Report

This report was distributed to the boards, presidents, and executive directors of the agencies, universities, and community college districts listed in this report.



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