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State Auditor

A Report on

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

July 2014

Report No. 14-039



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Overall Conclusion

All state agencies and community college districts and some universities¹ fully or substantially complied with the Public Funds Investment Act (Act) in fiscal year 2013. Additionally, all universities and most community college districts fully complied with higher education investment reporting requirements mandated by Rider 5, page III-241, the General Appropriations Act (83rd Legislature) and prescribed by the State Auditor's Office on its Web site at <http://www.sao.state.tx.us/Resources/IntAud/pubfunds.html>.

With approximately \$62.2 billion² in investments as of August 31, 2013, 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 the type of entity for fiscal year 2013:

- **Agencies.** The 13 agencies subject to the Act were in full or substantial compliance with the Act.
- **Universities.** Eight of the 17 universities subject to the Act were in full or substantial compliance with the Act. Midwestern State University was noncompliant with the Act because it did not submit a compliance audit report. Sam Houston State University was noncompliant 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 areas of investment 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-241, the General Appropriations Act (83rd Legislature) requires universities and community college districts to file an annual investment report prepared in a method prescribed by the State Auditor's Office. That method and additional reporting requirements were prescribed by the State Auditor's Office on its Web site at <http://www.sao.state.tx.us/Resources/IntAud/pubfunds.html>. Additionally, the universities and community college districts are required to publish on their Web sites quarterly investment reports.

¹ For the purpose of this report, "University" refers to all higher education institutions except for community college districts.

² The sources for this amount are the annual investment reports and annual financial reports prepared by the agencies, universities, and community college districts subject to the Act. Auditors did not perform tests or other procedures to verify the accuracy of the reported amounts. This amount is the sum of agency, university, and community college district investments, including investments of universities that are not subject to the Act, less those entities' investments in the Texas Local Government Investment Pool (TexPool) and Texas Local Government Investment Pool Prime (TexPool Prime).

because it reported many significant deficiencies relating to the requirements of the Act. Lamar University, Lamar State College - Orange, Lamar State College - Port Arthur, Lamar Institute of Technology, Sul Ross State University, Texas State University, and Texas State University System were minimally compliant with the Act.

In addition, all 17 universities were in full compliance with the higher education investment reporting requirements.

- **Community College Districts.** All 50 community college districts subject to the Act were in full or substantial compliance with the Act.

In addition, 49 community college districts were in full compliance with the higher education investment reporting requirements. Vernon College was substantially compliant with the higher education investment reporting requirements.

- **Universities not subject to the Act but still subject to the higher education investment reporting requirements.** The University of Texas System Administration, Texas A&M University System Administration, Texas Tech University System Administration, and University of Houston System Administration 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, 2014. 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 December 31, 2013. However, after auditors contacted the agencies, universities, and community colleges and established a new due date of April 9, 2014, 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.

Summary of Objectives, Scope, and Methodology

The objectives of this project were to:

- Determine whether state agencies and higher education institutions complied with the Act requirement to submit a compliance audit report to the State Auditor's Office by January 1, 2014.
- Determine whether higher education institutions complied with Special Provisions Relating Only to State Agencies of Higher Education, Section 5, page III-241, the General Appropriations Act (83rd Legislature) and reporting

requirements as prescribed by the State Auditor's Office on its Web site at <http://www.sao.state.tx.us/Resources/IntAud/pubfunds.html>.

The scope of this project covered investment disclosures and reports from July 2013 through April 2014.

The methodology for this project consisted of (1) collecting and evaluating evidence regarding compliance with the Act included in the agencies' and higher education institutions' most recent audit reports, (2) reviewing the universities' and community college districts' Web sites and the documents that they submitted to the State Auditor's Office for the required investment disclosures, and (3) compiling the 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. Auditors did not perform any information technology work.

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

All State Agencies Fully or Substantially 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 entities' internal or external auditors at least every two years. The results of those audits 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

Eight of 13 state agencies³ subject to the Act were in full compliance in fiscal year 2013 based upon reviews of the audit reports issued by the agencies' internal or external auditors. The Trusteed Programs within the Office of the Governor, Texas State Affordable Housing Corporation, Real Estate Commission, Water Development Board, and Texas Access to Justice Foundation were substantially compliant with the Act (see Appendix 2 on page 21 for additional details regarding those five agencies' compliance). The 13 agencies reported investments totaling approximately \$17.6 billion as of August 31, 2013 (see Table 3 on page 9 for more information).

Table 1 on the next page lists the eight agencies that were fully compliant with the Act.

³ 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. In addition, the Texas Local Government Investment Pool and Texas Local Government Investment Pool Prime are reported separately but they are both operated by the Texas Treasury Safekeeping Trust Company.

Table 1

| Agencies in Full Compliance with the Public Funds Investment Act |
|---|
| Board of Law Examiners |
| Department of Criminal Justice |
| Department of Housing and Community Affairs |
| Department of Transportation |
| 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) |

While Some Universities Fully or Substantially Complied with the Public Funds Investment Act, All 17 Universities Fully Complied with the Higher Education Investment Reporting Requirements

Universities' Compliance with the Act

One of the 17 universities subject to the Act was in full compliance in fiscal year 2013. The 17 universities reported investments totaling almost \$1.4 billion as of August 31, 2013 (see Table 4 on page 11 for more information).

Auditors assessed compliance with the Act after reviewing the audit reports issued by the universities' internal auditors and determined the following:

- Midwestern State University was noncompliant with the Act because it did not submit a compliance audit report.
- Sam Houston State University was noncompliant with the Act because it reported many significant deficiencies relating to the requirements of the Act.
- Lamar University, Lamar State College – Orange, Lamar State College – Port Arthur, Lamar Institute of Technology, Sul Ross State University, Texas State University, and Texas State University System were minimally compliant with the Act.
- Stephen F. Austin University, Texas Southern University, Texas Woman's University, University of North Texas, University of North Texas at Dallas, University of North Texas Health Science Center at Fort Worth, and University of North Texas System Administration were substantially compliant with the Act.
- Texas State Technical College System Administration was fully compliant with the Act.

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.

See Appendix 2 on page 21 for additional details regarding the universities' compliance.

Universities' Compliance with Higher Education Investment Reporting Requirements

The 17 universities subject to the Act were fully compliant with the higher education investment reporting requirements, as outlined in Rider 5, page III-241, General Appropriations Act (83rd Legislature) and prescribed by the State Auditor's Office on its Web site at <http://www.sao.state.tx.us/Resources/IntAud/pubfunds.html>. Those requirements include:

- Submitting an annual investment report to the State Auditor's Office, the Office of the Comptroller of Public Accounts, the Governor's Office, and the Legislative Budget Board, using the format prescribed by the State Auditor.
- Disclosing the following information on the institution's Web site:
 - ♦ Quarterly investment reports.
 - ♦ Disclosure on the use of outside investment advisors or managers.
 - ♦ Disclosure on the use of soft dollar agreements, directed brokerage or directed commission, commission recapture, or similar arrangements.⁴
 - ♦ Disclosure on associations with independent endowments or foundations.
 - ♦ Current investment policies.

Definitions of Compliance with the Higher Education Investment Reporting Requirements

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

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 will rebate a portion of the commission they receive on trades for the investor.

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

Community College Districts' Compliance with the Act

Of the 50 community college districts subject to the Act, 49 were in full compliance with the Act in fiscal year 2013. Auditors assessed compliance

with the Act after reviewing the audit reports issued by the community college districts' external auditors. San Jacinto College District was substantially compliant with the Act (see Appendix 2 on page 21 for additional details regarding this community college district's compliance). The 50 community college districts reported investments totaling approximately \$2.5 billion as of August 31, 2013 (see Table 5 on page 12 for more information).

Community College Districts' Compliance with Higher Education Investment Reporting Requirements

In reviewing community college districts for compliance with the higher education investment report requirements (see discussion on page 4 for more information about those requirements), auditors determined that of the 50 community college districts, 49 were in full compliance with the requirements. Vernon College did not use the required State Auditor's Office format for the 2013 annual investment report it submitted to the State Auditor's Office, and it did not fully disclose the use of soft dollar agreements. Therefore, it was substantially compliant with those requirements.

Table 2 on the next page lists the community college districts that were fully compliant with both the 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.

Definitions of Compliance with the Higher Education Investment Reporting Requirements

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

Table 2

| Community College Districts That Were Fully Compliant with the Public Funds Investment Act and Higher Education Investment Reporting Requirements |
|---|
| Alamo Community College District |
| Alvin Community College |
| Amarillo College |
| Angelina County Junior College District |
| Austin Community College District |
| Blinn College |
| Brazosport College District |
| Central Texas College District |
| Cisco Junior College District |
| Clarendon College |
| Coastal Bend College |
| College of the Mainland |
| Collin County Community College District |
| Dallas County Community College District |
| Del Mar College |
| El Paso County Community College District |
| Frank Phillips College |
| Galveston Community College District |
| Grayson County College |
| Hill College District |
| Houston Community College System |
| Howard County Junior College District |
| Kilgore Junior College District |
| Laredo Community College |
| Lee College District |
| Lone Star College System |
| McLennan County Junior College District |
| Midland Community College District |
| Navarro College District |
| North Central Texas Community College District |
| Northeast Texas Community College |
| Odessa Junior College District |
| Panola College |
| Paris Junior College |
| Ranger College |
| South Plains College |
| South Texas College |
| Southwest Texas Junior College |
| Tarrant County College District |
| Temple College |

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

Texarkana College

Texas Southmost College

Trinity Valley Community College

Tyler Junior College District

Victoria County Junior College District

Weatherford College of the Parker County Junior College District

Western Texas College

Wharton County Junior College District

All Four University Systems 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 4 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 met the exemption requirement: the Texas A&M University System Administration, the Texas Tech University System Administration, the University of Houston System Administration, and the University of Texas System Administration. Those four university systems were in full compliance with the higher education investment reporting requirements. (The university systems reported for all universities within their systems.) Those university systems reported investments totaling approximately \$42.0 billion as of August 31, 2013 (see Table 6 on page 15 for more information).

Summary of Investments for Agencies, Universities, and Community College Districts

The state agencies, universities, and community college districts that auditors reviewed reported different types of investments as of August 31, 2013. Specifically, universities that are not subject to the Act invested very differently from the other types of entities that are subject to the Act. For example:

- Universities that are not subject to the Act had 54.26 percent of their portfolios invested in “other investments,” including real estate, private equity, and hedge funds.
- Universities that are subject to the Act had 3.82 percent of their portfolios invested in “other investments.”
- Community college districts that are subject to the Act had 0.39 percent of their portfolios invested in “other investments.”
- State agencies that are subject to the Act had 0.21 percent of their portfolios invested in “other investments.”

Table 3 lists the total investments as of August 31, 2013, reported by state agencies subject to the Act.

Table 3

| Total Investments for Agencies That Are Subject to the Public Funds Investment Act ^a | |
|---|---|
| Agency | Market Value of Investments as of August 31, 2013 |
| Board of Law Examiners | \$ 1,236,504.00 |
| Department of Criminal Justice ^b | 23,105,939.40 |
| Department of Housing and Community Affairs | 1,134,527,394.00 |
| Department of Transportation ^c | 253,368,845.00 |
| Real Estate Commission | 8,905,778.23 |
| School for the Blind and Visually Impaired | 854,327.24 |
| State Bar of Texas ^d | 38,136,151.00 |
| Texas Access to Justice Foundation ^e | 13,062,624.34 |
| Texas Local Government Investment Pool (TexPool) | 14,367,318,877.00 |
| Texas Local Government Investment Pool Prime (TexPool Prime) | 1,056,833,973.00 |
| Texas State Affordable Housing Corporation | 4,322,683.00 |
| Trusted Programs within the Office of the Governor | 3,981,051.63 |

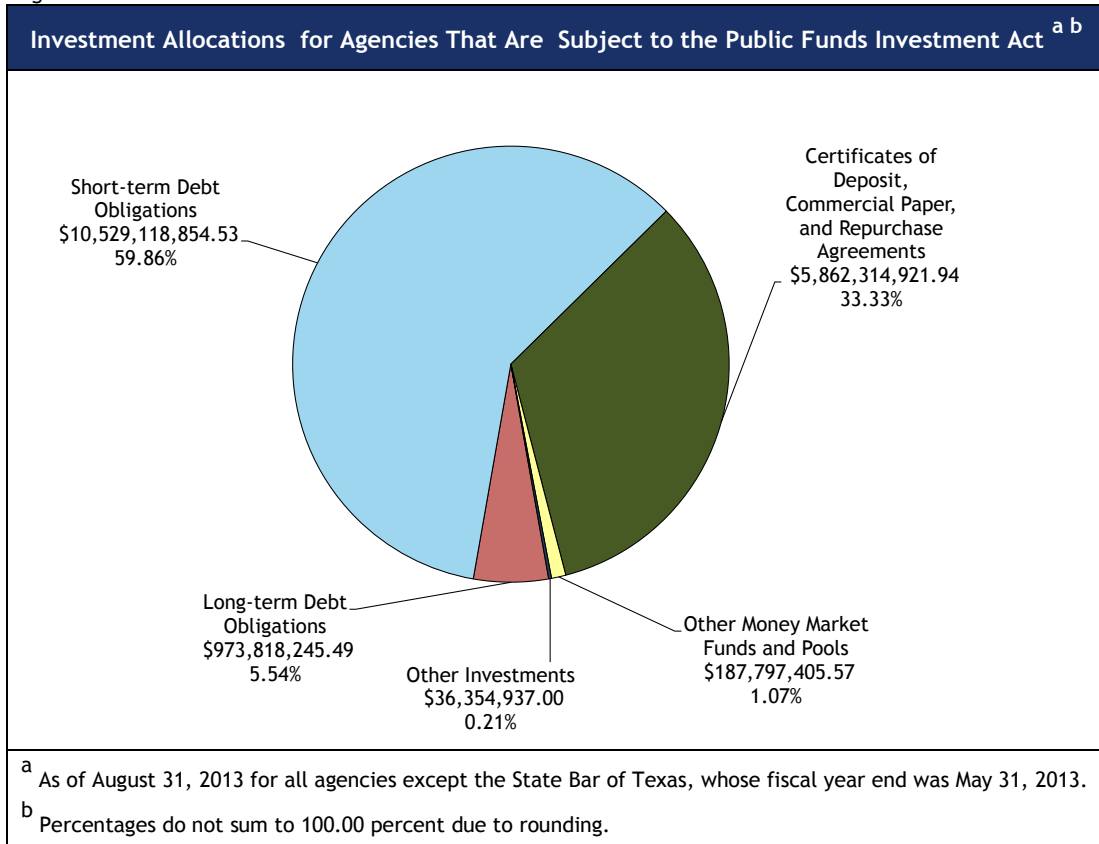
| Total Investments for Agencies That Are Subject to the Public Funds Investment Act ^a | |
|---|---|
| Agency | Market Value of Investments as of August 31, 2013 |
| Water Development Board | 683,750,216.69 |
| Total | \$ 17,589,404,364.53 |

^a This table includes investment information only for agencies that are subject to the Act.
^b Excludes \$2,845,300.46 in TexPool and TexPool Prime to avoid duplication in the overall total of investments.
^c Excludes \$174,250,125.00 in TexPool and TexPool Prime to avoid duplication in the overall total of investments.
^d Data is as of May 31, 2013, which is the State Bar of Texas's fiscal year end.
^e Excludes \$2,385,922.96 in TexPool and TexPool Prime to avoid duplication in the overall total of investments.

Sources: 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, Board of Law Examiners, Department of Transportation, and the Texas State Affordable Housing Corporation.

Figure 1 shows the agency investment allocations as of August 31, 2013, (see Appendix 3 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, Board of Law Examiners, Department of Transportation, and the Texas State Affordable Housing Corporation.

Table 4 lists the total investments as of August 31, 2013, reported by universities that are subject to the Act.

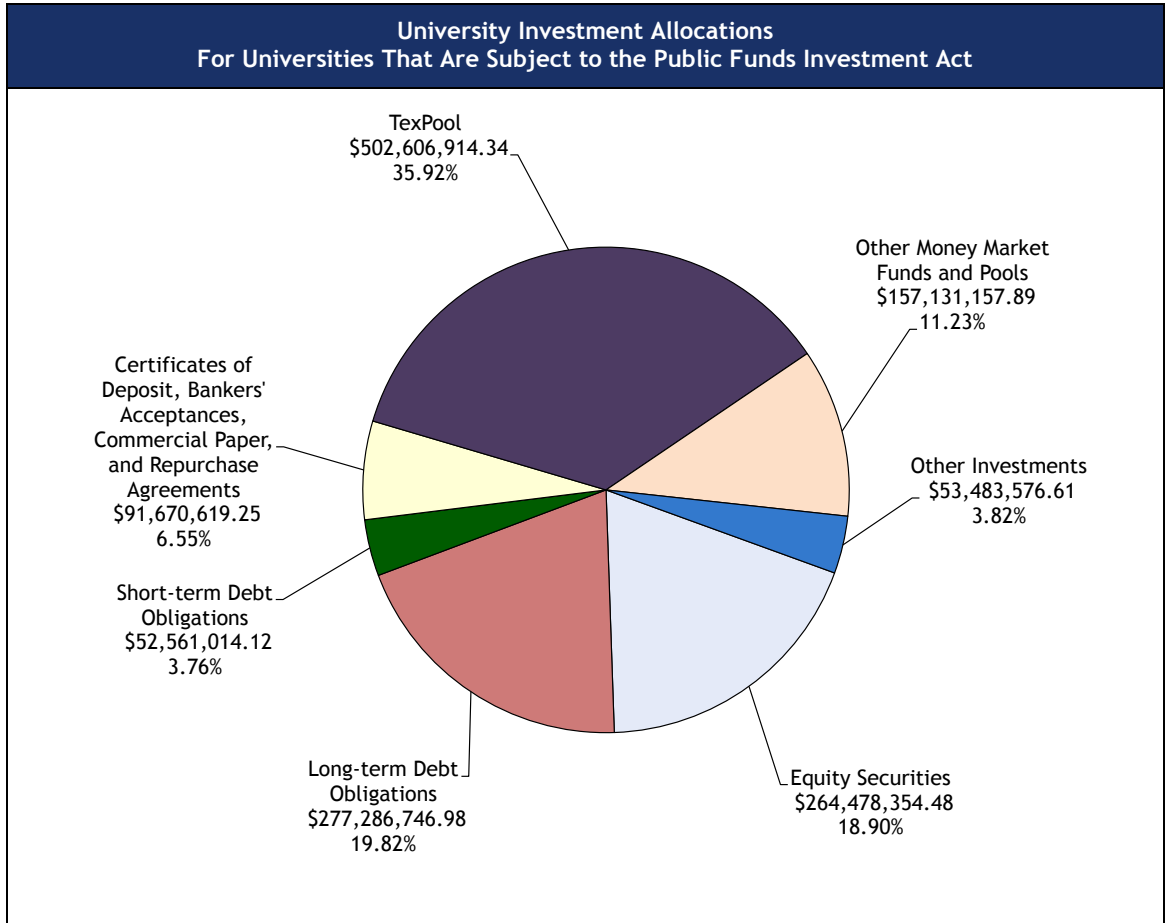
Table 4

| Total Investments for Universities That Are Subject to the Public Funds Investment Act | |
|--|---|
| University | Market Value of Investments as of August 31, 2013 |
| Lamar Institute of Technology | \$ 3,840,963.00 |
| Lamar State College - Orange | 14,713,033.07 |
| Lamar State College - Port Arthur | 4,254,074.16 |
| Lamar University | 42,687,957.90 |
| Midwestern State University | 51,398,368.57 |
| Sam Houston State University | 148,817,244.86 |
| Stephen F. Austin State University | 49,567,874.90 |
| Sul Ross State University | 30,171,081.95 |
| Texas Southern University | 56,412,576.79 |
| Texas State Technical College System Administration | 12,620,127.02 |
| Texas State University | 395,807,706.23 |
| Texas State University System | 11,572,486.70 |
| Texas Woman's University | 206,874,952.61 |
| University of North Texas | 268,279,019.46 |
| University of North Texas at Dallas | 6,887,460.32 |
| University of North Texas Health Science Center at Fort Worth | 70,130,727.78 |
| University of North Texas System Administration | 25,182,728.35 |
| Total | \$ 1,399,218,383.67 |

Source: Unaudited annual investment reports provided by the universities.

Figure 2 on the next page shows the investment allocations as of August 31, 2013, for universities that are subject to the Act.

Figure 2



Source: Unaudited annual investment reports provided by the universities.

Table 5 lists the total investments as of August 31, 2013, reported by community college districts.

Table 5

| Total Community College District Investments | |
|--|---|
| Community College District | Market Value of Investments as of August 31, 2013 |
| Alamo Community College District | \$ 163,732,411.00 |
| Alvin Community College | 5,450,000.00 |
| Amarillo College | 37,319,076.00 |
| Angelina County Junior College District | 7,224,885.00 |
| Austin Community College District | 135,138,467.00 |
| Blinn College | 41,368,912.00 |
| Brazosport College District | 11,144,781.00 |

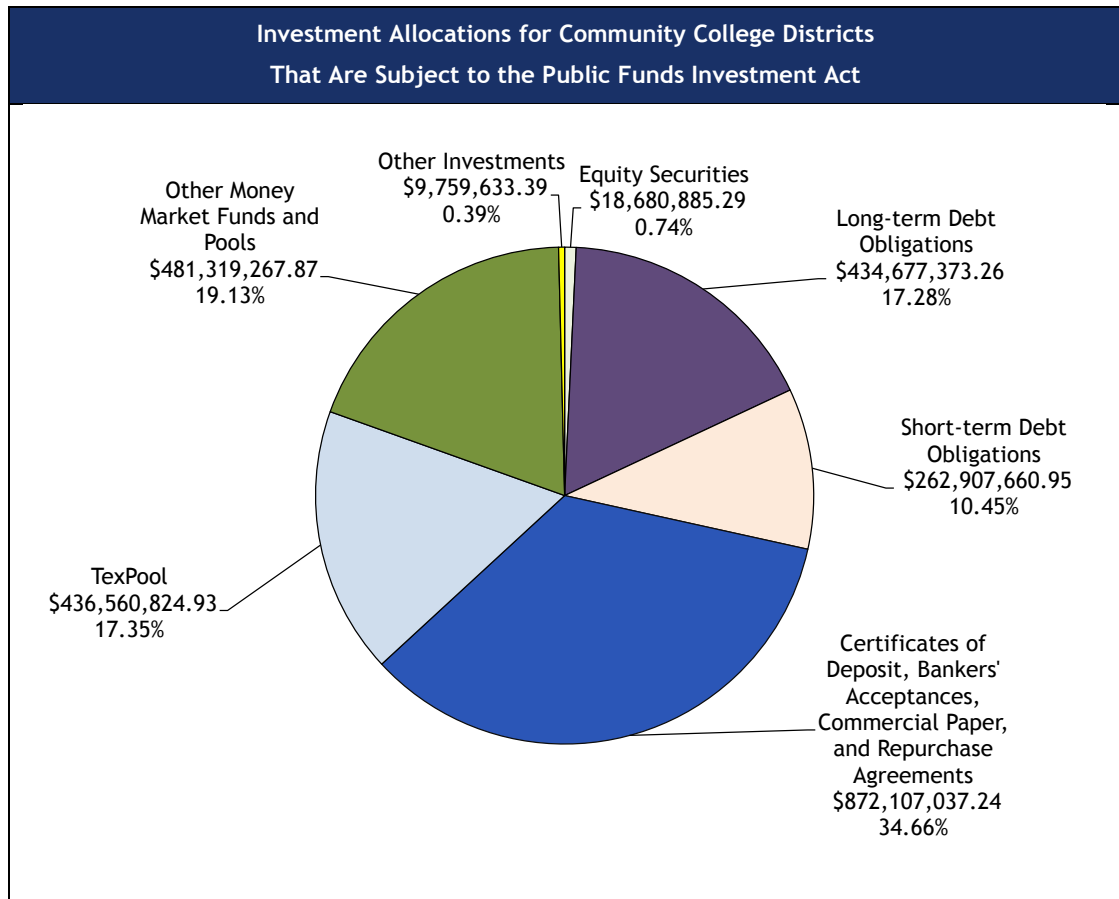
| Total Community College District Investments | |
|--|---|
| Community College District | Market Value of Investments as of August 31, 2013 |
| Central Texas College District | 133,492,188.00 |
| Cisco Junior College District | 2,084,761.00 |
| Clarendon College | 4,444,502.00 |
| Coastal Bend College | 122,106.05 |
| College of the Mainland | 19,100,627.00 |
| Collin County Community College District | 231,539,921.00 |
| Dallas County Community College District | 251,897,901.00 |
| Del Mar College | 52,600,438.49 |
| El Paso County Community College District | 80,698,910.00 |
| Frank Phillips College | 853,374.00 |
| Galveston Community College District | 11,101,362.00 |
| Grayson County College | 15,174,040.00 |
| Hill College District | 2,110,777.79 |
| Houston Community College System | 377,863,912.00 |
| Howard County Junior College District | 23,717,656.00 |
| Kilgore Junior College District | 16,740,577.98 |
| Laredo Community College | 0.00 |
| Lee College District | 7,732,975.00 |
| Lone Star College System | 120,796,965.00 |
| McLennan County Junior College District | 15,133,224.00 |
| Midland Community College District | 24,803,150.37 |
| Navarro College District | 2,249,754.00 |
| North Central Texas Community College District | 21,414,955.00 |
| Northeast Texas Community College | 3,312,935.74 |
| Odessa Junior College District | 60,258,082.00 |
| Panola College | 15,568,642.00 |
| Paris Junior College | 10,000,000.00 |
| Ranger College | 499,079.22 |
| San Jacinto College District | 112,733,701.00 |
| South Plains College | 15,411,459.19 |
| South Texas College | 130,995,040.30 |
| Southwest Texas Junior College | 9,584,459.37 |
| Tarrant County College District | 225,235,200.00 |
| Temple College | 17,842,772.00 |
| Texarkana College | 0.00 |
| Texas Southmost College | 95,161.00 |
| Trinity Valley Community College | 4,036,987.43 |

| Total Community College District Investments | |
|--|---|
| Community College District | Market Value of Investments as of August 31, 2013 |
| Tyler Junior College District | 39,729,093.00 |
| Vernon College | 3,915,000.00 |
| Victoria County Junior College District | 3,006,720.00 |
| Weatherford College of the Parker County Junior College District | 14,816,256.00 |
| Western Texas College | 4,345,584.00 |
| Wharton County Junior College District | 27,573,901.00 |
| Total | \$ 2,516,012,682.93 |

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

Figure 3 shows the community college district investment allocations as of August 31, 2013.

Figure 3



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

Table 6 lists the total investments reported by universities that are not subject to the Act but that are subject to higher education investment reporting requirements.

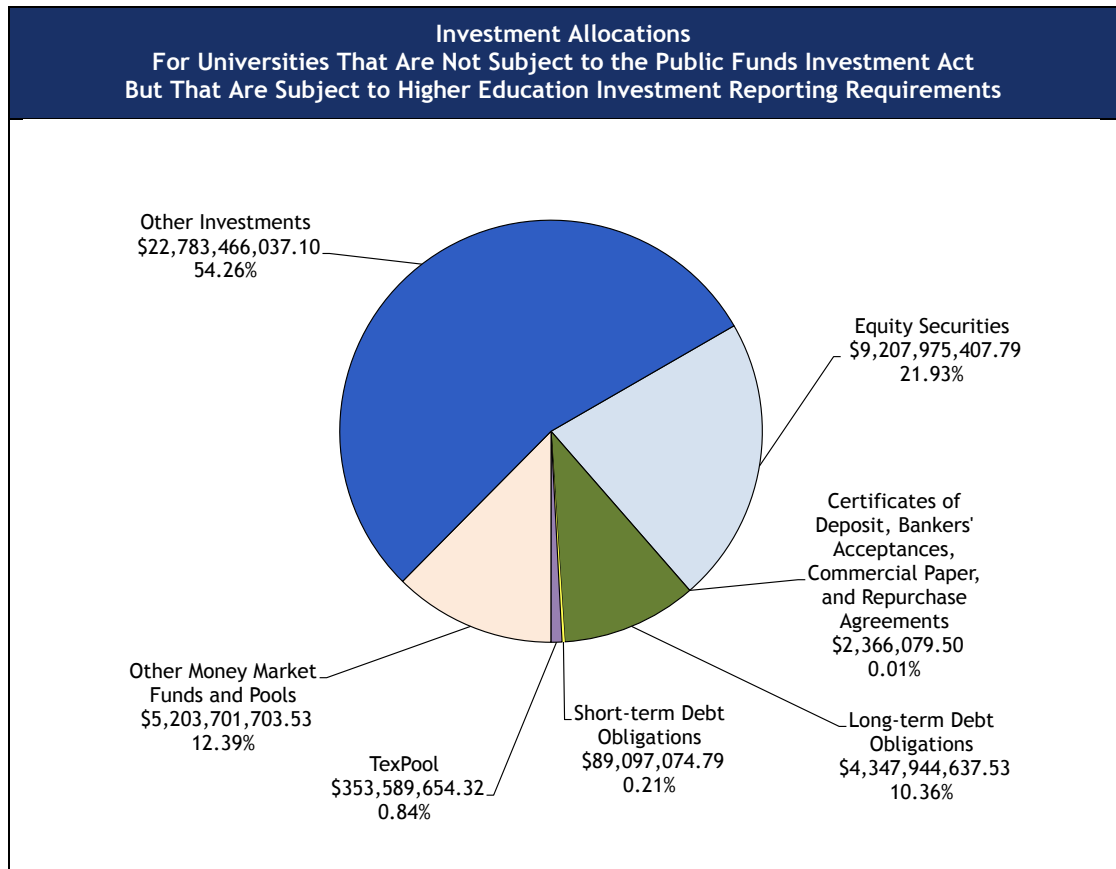
Table 6

| Total Investments for Universities That Are Not Subject to the Public Funds Investment Act But That Are Subject to Higher Education Investment Reporting Requirements | |
|---|---|
| University System | Market Value of Investments as of August 31, 2013 |
| Texas A&M University System Administration | \$ 3,472,383,414.92 |
| Texas Tech University System Administration | 1,775,363,838.89 |
| University of Houston System Administration | 1,173,683,455.74 |
| The University of Texas System Administration | 35,566,709,885.01 |
| Total | \$ 41,988,140,594.56 |

Source: Unaudited annual investment reports provided by the universities.

Figure 4 on the next page shows the investment allocations as of August 31, 2013, for universities that are not subject to the Act but that are subject to higher education investment reporting requirements.

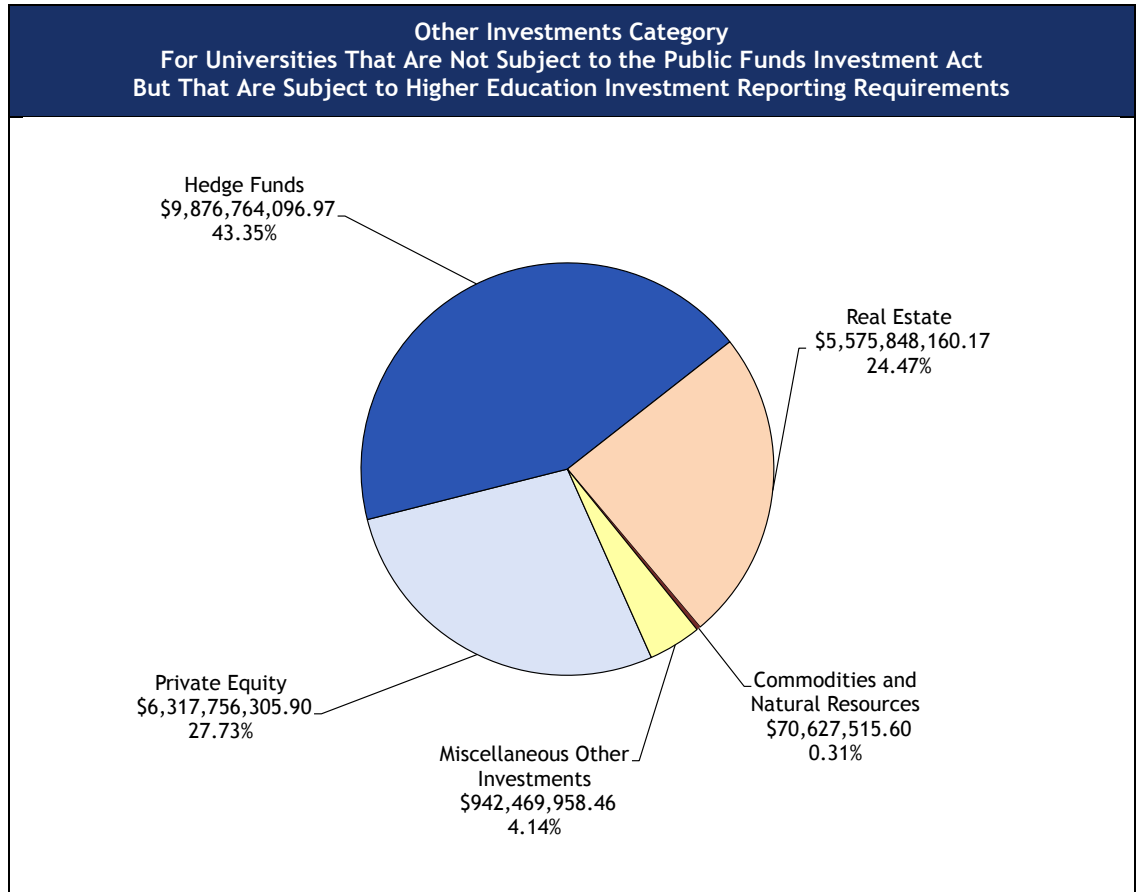
Figure 4



Source: Unaudited annual investment reports provided by the universities.

As shown in Figure 4 above, “Other Investments” comprised more than 54 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 on the next page shows the breakdown of 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 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, 2014.
- Determine whether higher education institutions complied with Special Provisions Relating Only to State Agencies of Higher Education, Section 5, page III-241, the General Appropriations Act (83rd Legislature) and reporting requirements as prescribed by the State Auditor's Office on its Web site at <http://www.sao.state.tx.us/Resources/IntAud/pubfunds.html>.

Scope

The scope of this project covered investment disclosures and reports from July 2013 through April 2014. Auditors established April 9, 2014, as the due date 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 entities' most recent audit reports, (2) reviewing the universities' and community college districts' Web sites and the documents that they submitted to the State Auditor's Office for the required investment disclosures, and (3) compiling the 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. Auditors did not perform any information technology work.

Information collected and reviewed included the following:

- Audited and unaudited 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 the universities' and community college districts' 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's Office 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 a quarterly investment report as of August 31, 2013, or a more recent report, for each university and community college district was 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 entity individually and by type of entity.

Criteria used included the following:

- The Public Funds Investment Act (Texas Government Code, Section 2256).
- Higher education investment reporting requirements mandated by Rider 5, page III-241, General Appropriations Act (83rd Legislature) and prescribed by the State Auditor's Office on its Web site at <http://www.sao.state.tx.us/Resources/IntAud/pubfunds.html>.

Project Information

Project fieldwork was conducted from March 2014 through May 2014. 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:

- Robert P. Burg, MPA, CPA, CFE (Project Manager)
- Laura Nienkerk, MACy, CIA
- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)

Instances of Noncompliance

Tables 7 through 9 provides information on the instances of noncompliance reported in the audit reports issued by the internal and external auditors of state agencies, universities, and community college districts subject to the Public Fund Investment Act (Act). As discussed in Chapter 2, Midwestern State University was noncompliant with the Act because it did not submit a compliance audit report.

Table 7

| State Agencies That Were Not Fully Compliant with the Public Funds Investment Act | | |
|---|---------------------------|--|
| State Agency | Area(s) of Non-compliance | Comments |
| State Agencies That Were Substantially Compliant with the Act | | |
| Texas State Affordable Housing Corporation | Reviewing | The Texas State Affordable Housing Corporation (Corporation) owned a public funds money market account at Libertad Bank at August 31, 2013, in the amount of \$250,099.82, which exceeded the FDIC insurance coverage of \$250,000. The Corporation's investment policy and the Act require that deposits in excess of the FDIC insurance amounts be collateralized by securities. |
| Office of the Governor-Fiscal | Policies | The agency's internal auditors reported weaknesses in internal control that allowed for administrative omissions. Specifically, the Office's procedures did not result in consistent confirmation of adherence to the Act's administrative provisions. |
| | Policies | Texas Government Code, Section 2256.005 (e), requires the governing body of an investing entity to review its investment policies annually and create a record of that review. The records of four investing entities that are the component units of the Office of the Governor-Fiscal did not comply with that provision. |
| | Policies | Texas Government Code, Section 2256.005 (f), requires each investing entity to designate, by rule, order, resolution, or as appropriate, one or more investment officers to be responsible for the investment of its funds. The records for two investing entities that are the component units of the Office of the Governor-Fiscal did not comply with that provision. |
| | Training | Texas Government Code, Section 2256.007 (a), requires that each member of the governing board attend at least one training session relating to the person's responsibilities within six months after taking office or assuming duties. The records of one investing entity that is a component unit of the Office of the Governor-Fiscal did not comply with that provision. |
| Real Estate Commission | Training | Texas Government Code, Section 2256.007, states that each member of the governing board of a state agency and its investment officer shall attend one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties. The agency's internal auditors reported that one Real Estate Commission member and the director of support services did not attend required training within six months after taking office or assuming duties. |

| State Agencies That Were Not Fully Compliant with the Public Funds Investment Act | | |
|---|---------------------------|--|
| State Agency | Area(s) of Non-compliance | Comments |
| Water Development Board | Reporting | The agency's Enterprise Fund had investments of approximately \$807 million, of which approximately \$667 million should have been separately itemized as "invested assets" as of August 31, 2013. The Act requires that quarterly reports "... state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested" and "...state the maturity date of each separately invested asset that has a maturity date." |
| Texas Access to Justice Foundation | Policies | The Act (Texas Government Code, Section 2256.021) requires that an investment policy states how bids for certificates of deposit will be solicited: orally, in writing, electronically, or in any combination of those methods. The Texas Access to Justice Foundation's (Foundation) policy did not include the method by which certificate of deposit bids are solicited. |
| | Reporting | The Act (Texas Government Code, Section 2256.023) requires the quarterly report of investment transactions for the Foundation to be prepared and submitted to the governing body. However, the Foundation's September 2012 quarterly report was not prepared, certified, or submitted to the governing body. |
| | Training | The Act (Texas Government Code, Section 2256.007) requires each member of the governing board of a state agency and its investment officer to attend at least one training session related to the person's responsibilities within six months after taking office or assuming duties. One new board member took office and did not complete the training within six months. |

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

Table 8

| 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 | | |
| Sam Houston State University | Policies | This university did not obtain written documentation showing that three contracted investment managers received and reviewed the Texas State University System's investment policy for operating funds and implemented reasonable procedures and controls to preclude investment transactions that are not authorized by policy. |
| | Policies | Investment transactions were conducted by the authorized investment pool and investment managers on behalf of this university without the written acknowledgment that the investment pool had implemented reasonable procedures and controls to preclude investment transactions that are not authorized by the Texas State University System's investment policy. |
| | Policies | The contract between this university and its depository provides for collateralization at an amount equal to the total balances of this university, exclusive of accrued interest. This does not meet the Texas State University System's investment policy requirement to provide collateralization of 102 percent of balances including accrued interest. |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|------------|---------------------------|--|
| | Policies | This university's auditors identified 6 of 30 investments tested that appeared to be unauthorized according to the Act (Texas Government Code, Section 2256.09). Those 6 investments had a total market value of \$1,927,242 at the end of fiscal year 2013. |
| | Policies | This university's contracted investment adviser did not provide the certification of receipt of the Texas State University System's investment policy or annual copies of its ADV disclosure form parts I and II. However, this university's auditors reported they were aware that the adviser did receive and review the policies based on evaluations performed by the Texas State University System's Office of Audits and Analysis. The investment adviser provided this university's auditors a certification and the ADV disclosure form parts I and II after auditors brought the issue to the attention of Texas State University System management. |
| | Policies | <p>This university's auditors noted the university's written procedures had the following exceptions to the requirements that the Texas State University System's investment policy places on written procedures:</p> <ul style="list-style-type: none"> ▪ The procedures do not specify that all securities will be settled delivery versus payment into the component's depository or custodian bank. ▪ The procedures do not address the timing for transaction documentation completion. ▪ The procedures do not state that an investment ledger will be maintained for reconciliation with the general ledger, bank reports, and trade confirmations. |
| | Policies | This university's auditors identified five investments that, while authorized per the Act (Texas Government Code, Section 2256.009), appeared to be unauthorized investments per the Texas State University System's investment policy for operating funds. Specifically, the stated final maturity date for all five investments exceeded five years, and one investment was rated by only one nationally recognized rating organization. Because all five investments were municipal bonds and can be sold or liquidated prior to the final stated maturity date, there was no material impact to this instance of non-compliance. The 5 investments had a total market value of \$2,149,612 at the end of fiscal year 2013. |
| | Reporting | The yield and expense ratios are not presented on the investment pool's Web page. However, this disclosure is not under the control of this university or the Texas State University System. |
| | Reporting | The report this university submitted to the Texas State University System board of regents for the quarter ended May 31, 2012, was a consolidated system-wide report and did not contain detailed information for the Texas State University System or components. Because the detailed report for the quarter ended May 31, 2012, was not submitted, this university did not comply with the specific report requirements detailed in the Act (Texas Government Code, Section 2256.023). |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|------------|---------------------------|---|
| | Reporting | None of the quarterly investment reports for this university that were presented to the Texas State University System board of regents during the 2012-2013 biennium was signed by the investment officer. However, the reports kept on file at this university and available on the university's Web page were signed by the investment officer. |
| | Reporting | Only the first two quarterly reports for the biennium period (quarters ended November 30, 2011, and February 29, 2012) presented accrued interest for "Cash in Bank" and "Cash in State Treasury" accounts. The remaining six reports during the biennium did not state the accrued interest for the cash accounts. |
| | Reporting | The quarterly reports for February 2013, May 2013, and August 2013 did not include the book and market values of each separately invested asset under the three investment managers. Instead, aggregate numbers were presented for each investment manager. |
| | Reporting | The quarterly reports for February 2013, May 2013, and August 2013 did not include maturity dates of each separately invested asset that had a maturity date held by the three investment managers. |
| | Reporting | The quarterly reports submitted to the Texas State University System board of regents for this university during the 2012-2013 biennium did not include a specific reference to the compliance of the investment portfolio as it relates to the investment strategy expressed in the Texas State University System's investment policies. |
| | Reporting | This university maintained designated and auxiliary funds in the Commonfund High Quality Bond fund with a market value on August 31, 2012 of \$35,421,132.56. Those funds were divested shortly thereafter, but were considered "other than" the described funds. Therefore, the annual review by an independent auditor was required, but the review was not performed or submitted to the Texas State University System board of regents. |
| | Reporting | This university did not submit the required annual investment report to the Comptroller of Public Accounts, Legislative Budget Board, or the Office of the Governor for fiscal year 2012. |
| | Reporting | In this university's annual investment report for the period ending August 31, 2012 (including endowed funds and deposits), the amount presented for "Total Publicly Traded Debt & Similar Investments >1 year", was \$55,282,302.56. The amount presented in this university's <i>Annual Financial Report</i> for the fiscal year ended August 31, 2012, for "Fixed Income Money Market and Bond Mutual Fund" was \$57,962,371.48, with a difference of \$2,680,068.92. That difference was a result of the <i>Endowment Quarterly Investment Report</i> for August 31, 2012, missing a line item of money market investments with a value of \$2,680,069.00. However, the amount of the investment was included in the "total" for all investments (creating the appearance of a calculation error). Therefore, it was overlooked during preparation of this university's annual investment report. |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|------------|---------------------------|---|
| | Reporting | This university posted that it does not employ outside investment advisors or managers; however, Asset Strategy Consultants has been serving as “adviser” (verbatim from contract) to this university to provide independent investment consulting services to the University Endowment and portions of the University Non-Operating Funds since August 1, 2012. The employment of Asset Strategy Consultants should have been disclosed by December 31, 2012. The university’s response to this question was revised in December 2013 to include the relationship with Asset Strategy Consultants. |
| | Reviewing | This university’s written procedures were submitted to the Texas State University System’s chief financial officer for fiscal year 2012, but those procedures have not been updated since September 27, 2011. |
| | Reviewing | This university’s depository bank, which provides demand deposit services for the university, did not provide its audited financial statements to this university or the Texas State University System. |

Universities That Were Minimally Compliant with the Act

| | | |
|------------------------|-------------|---|
| Texas State University | Contracting | This university’s contract with a management firm was signed in 2009 for a one-year term. While the initial contract term meets the requirements, the university’s auditors determined that no board approval had been provided for contract renewal since 2010. |
| | Policies | The Texas State University System’s investment policy was not sent to an investment pool that manages this university’s public fund investments. |
| | Policies | Investment transactions were conducted by an authorized investment pool on behalf of this university without the pool’s written acknowledgment that it implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by the Texas State University System investment policy. |
| | Reporting | This university’s portfolio included 16 collateralized mortgage obligations (CMOs) with stated final maturity dates greater than 10 years. The reported market value of the CMOs at August 31, 2013, was \$7,766,864.19. Management began the process of liquidating the CMOs once the maturity dates were brought to its attention. |
| | Reporting | The yield and expense ratios are not presented on the investment pool’s Web site, as required by the Act. However, this disclosure is not under this university’s control. |
| | Reporting | The report submitted to the Texas State University System’s board of regents for the quarter ended May 31, 2012, was a consolidated system-wide report and did not contain detailed information for the Texas State University System or the components. Because the detailed report for the quarter ended May 31, 2012, was not submitted to the board of regents, each of the specific report requirements detailed in the Act (Texas Government Code, Section 2256.023) are considered exceptions to compliance. |
| | Reporting | None of the eight investment reports this university presented to the Texas State University System board of regents during the 2012-2013 biennium was signed by the investment officer. |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|------------------|---|---|
| Lamar University | Reporting | This university's Cash in Treasury account did not include interest income on six of the eight reports it presented to the Texas State University System board of regents during the 2012-2013 biennium. |
| | Reporting | In the February 2013 quarterly investment report, a TexPool account with a market value of \$63,993,225.67 was omitted in the detail presented to the Texas State University System board of regents; however, because the line containing the data was hidden, the total column amount presented was correct. The error was discovered prior to being published on this university's Web site and the published report is correct in all details. This university had invested funds through Sage Advisory Services that were reported to the Texas State University System board of regents in summary rather than in detail. A detail of the investments are attached to the February 2013 quarterly investment report on this university's Web page, but it was not a part of report presented to the Texas State University System board of regents. |
| | Reporting | The quarterly reports submitted to the Texas State University System board of regents for this university during the 2012-2013 biennium did not include a specific reference to the compliance of the investment portfolio as it relates to the investment strategy expressed in the Texas State University System's investment policies. |
| | Reporting | This university did not submit the required annual investment report to the Comptroller of Public Accounts, Legislative Budget Board, or the Office of the Governor for fiscal year 2012. |
| | Policies | The Texas State University System's investment policy was not sent to an investment pool that manages this university's public fund investments. |
| | Policies | Investment transactions were conducted by an authorized investment pool on behalf of this university without the investment pool's written acknowledgment that it implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by the Texas State University System's investment policy. |
| | Policies | This university did not establish or maintain written administrative procedures and guidelines in support of the Texas State University System's investment policy. |
| | Reporting | Yield and expense ratios were not presented on the investment pool's Web site as required by the Act (Texas Government Code, Section 2256.016(c)(2)(1)). However, this disclosure is not under this university's control. |
| Reporting | The report submitted to the Texas State University System board of regents for the quarter ended May 31, 2012, was a consolidated system-wide report and did not contain detailed information for this university. Because the detailed report for the quarter ended May 31, 2012, was not submitted to the Texas State University System board of regents, this university did not comply with the specific report requirements detailed in the Act (Texas Government Code, Section 2256.023). | |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|------------------------------|---------------------------|---|
| Lamar State College - Orange | Reporting | Only two of the eight investment reports for this university presented to the Texas State University System board of regents during the 2012-2013 biennium were signed by the investment officer. |
| | Reporting | This university did not accurately report interest income. Specifically, this university did not report \$84,546.82 in interest during the 2012-2013 biennium. |
| | Reporting | In this university's quarterly investment report for February 2013, the TexPool Series 2 investment in the amount of \$3,000,142.70 was not listed separately (as required) although it was correctly included in the total of non-operating funds. In addition, total cash was understated by \$4,559,667.60. |
| | Reporting | This university's investment reports provided cash amounts as a total under "Cash in Bank" and did not provide individual account information. |
| | Reporting | The quarterly reports submitted to the Texas State University System board of regents for this university during the 2012-2013 biennium did not include a specific reference to the compliance of the investment portfolio as it relates to the investment strategy expressed in the Texas State University System's investment policies. |
| | Reporting | This university did not submit the required annual investment report to the State Auditor, the Comptroller of Public Accounts, Legislative Budget Board, or the Office of the Governor for fiscal year 2012. |
| | Policies | The Texas State University System's investment policy was not sent to an investment pool that manages this university's public fund investments. |
| | Policies | Investment transactions were conducted by an authorized investment pool on behalf of this university without the investment pool's written acknowledgment that it implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by the Texas State University System's investment policy. |
| | Policies | This university did not have written administrative procedures. |
| | Reporting | The yield and expense ratios were not presented on the investment pool's Web site. However, this disclosure is not under this university's control. |
| | Reporting | The report submitted to the Texas State University System board of regents for the quarter ended May 31, 2012, was a consolidated system-wide report and did not contain detailed information for this university. Because the detailed report for the quarter ended May 31, 2012, was not submitted to the Texas State University System board of regents, this university did not comply with the specific report requirements detailed in the Act (Texas Government Code, Section 2256.023). |
| | Reporting | Only two of the eight investment reports for this university presented to the Texas State University System board of regents during the 2012-2013 biennium were signed by the investment officer. |
| | Reporting | This university did not accurately report interest income. Specifically, this university did not report \$18,022.50 in interest during the 2012-2013 biennium. |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|-----------------------------------|---|--|
| Lamar State College - Port Arthur | Reporting | Although the total shown of all investments was correct in this university's February 2013 quarterly investment report, one line item, the TexPool Series 4 investment in the amount of \$5,181,365.43, was not listed. |
| | Reporting | This university's investment reports provided cash amounts as a total under "Cash in Bank" and did not provide individual account information. |
| | Reporting | The quarterly reports submitted to the Texas State University System board of regents for this university during the 2012-2013 biennium did not include a specific reference to the compliance of the investment portfolio as it relates to the investment strategy expressed in the Texas State University System's investment policies. |
| | Reporting | This university did not submit the required annual investment report to the State Auditor, the Comptroller of Public Accounts, Legislative Budget Board, or the Office of the Governor for fiscal year 2012. |
| | Reporting | While this university posted an annual investment report for fiscal year 2012 with the required elements to its Web site, it did not use the State Auditor's Office's prescribed format. |
| | Reporting | This university did not prepare quarterly cash flow projections or submit a report to the university's president at the 2012 and 2013 fiscal year-ends. |
| | Policies | This university did not send the Texas State University System's investment policy to an investment pool that manages this university's public fund investments. |
| | Policies | Investment transactions were conducted by an authorized investment pool on behalf of this university without the investment pool's written acknowledgment that it implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by the Texas State University System's investment policy. |
| | Policies | This university did not have written administrative procedures. |
| | Reporting | The yield and expense ratios were not presented on the investment pool's Web site. However, this disclosure is not under this university's control. |
| | Reporting | The investment report submitted to the Texas State University System board of regents for the quarter ended May 31, 2012, was a consolidated system-wide report and did not contain detailed information for this university. Because the detailed report for the quarter ended May 31, 2012, was not submitted to the Texas State University System board of regents, this university did not comply with the specific report requirements detailed in the Act (Texas Government Code, Section 2256.023). |
| | Reporting | Only two of the eight investment reports for this university presented to the Texas State University System board of regents during the 2012-2013 biennium were signed by the investment officer. |
| Reporting | This university did not accurately report interest income. Specifically, this university did not report \$12,854.20 in interest income during the 2012-2013 biennium. | |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|-------------------------------|---------------------------|--|
| Lamar Institute of Technology | Reporting | For the first two quarters of the 2012-2013 biennium, the investment reports for this university provided cash amounts as a total under "Cash in Bank" and did not provide individual account information. |
| | Reporting | The quarterly reports submitted to the Texas State University System board of regents for this university during the 2012-2013 biennium did not include a specific reference to the compliance of the investment portfolio as it relates to the investment strategy expressed in the Texas State University System's investment policies. |
| | Reporting | This university did not submit the required annual investment report to the State Auditor, the Comptroller of Public Accounts, Legislative Budget Board, or the Office of the Governor for fiscal year 2012. |
| | Reporting | This university did not prepare quarterly cash flow projections or submit a report to the university's president at the 2012 and 2013 fiscal year-ends. |
| | Policies | This university did not send the Texas State University System's investment policy to an investment pool that manages this university's public fund investments. |
| | Policies | Investment transactions were conducted by an authorized investment pool on behalf of this university without the investment pool's written acknowledgment that it implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by the Texas State University System's investment policy. |
| | Policies | <p>This university had written administrative procedures; however, those procedures had not been forwarded to the Texas State University System's chief financial officer for either fiscal years 2012 or 2013. Additionally, the procedures did not address the following requirements established by the Texas State University System:</p> <ul style="list-style-type: none"> • All securities will be settled delivery versus payment (DVP) into the component's depository or custodian bank. • No securities will be safe-kept with a broker/dealer. • Every transaction will be documented for accounting information and security description. • All transaction documentation will be completed within five business days of receipt. |
| | Reporting | The yield and expense ratios were not presented on the investment pool's Web site. However, this disclosure is not under this university's control. |
| | Reporting | The report submitted to the Texas State University System board of regents for the quarter ended May 31, 2012, was a consolidated system-wide report and did not contain detailed information for this university. Because the detailed report for the quarter ended May 31, 2012, was not submitted to the Texas State University System board of regents, this university did not comply with the specific report requirements detailed in the Act (Texas Government Code, Section 2256.023). |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|---------------------------|--|--|
| Sul Ross State University | Reporting | Only two of the eight investment reports for this university presented to the Texas State University System board of regents during the 2012-2013 biennium were signed by the investment officer. |
| | Reporting | This university did not accurately report interest income. Specifically, this university did not report \$9,758.42 during the 2012-2013 biennium. |
| | Reporting | This university's investment reports provided cash amounts as a total under "Cash in Bank" and did not provide individual account information. |
| | Reporting | The quarterly reports submitted to the Texas State University System board of regents for this university during the 2012-2013 biennium did not include a specific reference to the compliance of the investment portfolio as it relates to the investment strategy expressed in the Texas State University System's investment policies. |
| | Reporting | This university did not submit the required annual investment report to the State Auditor, the Comptroller of Public Accounts, Legislative Budget Board, or the Office of the Governor for fiscal year 2012. |
| | Policies | This university did not send the Texas State University System investment policy to an investment pool that manages this university's public fund investments. |
| | Policies | Investment transactions were conducted by an authorized investment pool on behalf of this university without the investment pool's written acknowledgment that it implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by the Texas State University System's investment policy. |
| | Policies | This university contracts with an investment adviser. The adviser did not provide the certification of receipt of the Texas State University System investment policy or annual copies of its ADV disclosure form parts I and II. However, this university's auditors are aware that the adviser did receive and review the policies because the auditor reviewed the adviser's proposed changes to both the operating funds and endowment funds policies for the 2012 and 2013 fiscal years prior to the policies being submitted to the Texas State University System board of regents for approval. This university provided a certification and the ADV disclosure form parts I and II after this issue was brought to attention of the university's management. |
| Policies | This university's written procedures were reviewed and submitted to the Texas State University System's chief financial officer for fiscal year 2012, but the university did not submit them for fiscal year 2013. | |
| Policies | <p>This university's auditors noted the following exceptions to the requirements that the Texas State University System's investment policy places on this university's written procedures:</p> <ul style="list-style-type: none"> ▪ The procedures do not specify that all securities will be settled delivery versus payment (DVP) into the component's depository or custodian bank. ▪ The procedures do not specify that no securities will be safe-kept with a broker/dealer. The procedures do state | |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|------------|---------------------------|---|
| | | <p>that securities purchased by the university are held by a third-party custodian in the name of the university.</p> <ul style="list-style-type: none"> ▪ The procedures do not state that operating funds cash flow will be reviewed at a high level at least annually to determine investment strategy impact and projections. ▪ The procedures require that investment transactions are recorded on a timely basis but no less often than monthly. The Texas State University System’s investment policy requires transaction documentation to be completed within five business days of receipt. ▪ The procedures include a provision for monitoring of the investments at least once a month, but the procedures do not specify by whom and does not address an overall review of the portfolio. |
| | Policies | <p>The depository contract between this university and its depository provides for collateralization at an amount equal to this university’s total balances, exclusive of accrued interest. However, this does not meet the Texas State University System’s investment policy’s requirement to provide collateralization at an amount equal to 102 percent of balances including accrued interest. This university’s management asserts that actual practice is that the collateralization is almost always at least 102 percent of the value of deposits.</p> |
| | Reporting | <p>The yield and expense ratios were not presented on the investment pool’s Web site. However, this disclosure is not under this university’s control.</p> |
| | Reporting | <p>The report submitted to the Texas State University System’s board of regents for the quarter ended May 31, 2012, was a consolidated system-wide report and did not contain detailed information. This university’s detailed report was sent to the Texas State University System office, but a summary report was submitted to the board of regents. Because the detailed report for the quarter ended May 31, 2012, was not submitted to the board of regents, this university did not comply with the specific report requirements detailed in the Act (Texas Government Code, Section 2256.023).</p> |
| | Reporting | <p>None of the quarterly reports this university submitted to the Texas State University System board of regents during the 2012-2013 biennium was signed by the university’s investment officer.</p> |
| | Reporting | <p>This university presented accrued interest for “Cash in Bank” and “Cash in State Treasury” accounts only on the reports for the quarters ended November 30, 2011, and February 29, 2012. The remainder of the reports during the 2012-2013 biennium did not state the accrued interest for the cash accounts. Additionally, there were six bank accounts that had not been included on the investment reports starting with the May 31, 2012, report. On August 31, 2013, those accounts totaled \$125,394.31 and were maintained as clearing accounts that are routinely swept into the operating account or fully expended, such as a payroll clearing account.</p> |
| | Reporting | <p>This university did not state the book value of the collateralized mortgage obligation in its report for the quarter ended November 30, 2012.</p> |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|------------|---------------------------|--|
| | Reporting | This university stated the maturity date of the Fannie Mae (FNMA) collateralized mortgage obligation only on the reports for the quarters ended November 30, 2011, and February 29, 2012. The remainder of the reports during the 2012-2013 biennium did not state the maturity date. |
| | Reporting | Only the first two quarterly reports for the 2012-2013 biennium contained the required statement of compliance. The remainder of the quarterly reports submitted to the Texas State University System's board of regents did not include a specific reference to the compliance of the investment portfolio as it relates to the investment strategy expressed in the Texas State University System's investment policies. |
| | Reporting | This university holds a FNMA collateralized mortgage obligation with a market value on August 31, 2013, of \$1,998.83. This holding is "other than" the described funds, so the annual review by an independent auditor was required. However, that review was not performed nor submitted to the Texas State University System board of regents. |
| | Reporting | This university did not submit the required annual investment report to the State Auditor, Comptroller of Public Accounts, Legislative Budget Board, or the Office of the Governor for fiscal year 2012 by the December 31, 2012 due date. This university submitted the required annual investment report for both fiscal years 2012 and 2013 to the Comptroller of Public Accounts, the Legislative Budget Board, and the Office of the Governor in December 2013. |
| | Reporting | The four quarterly reports that should have been posted to this university's Web site for the fiscal year ending August 31, 2013, were not posted to its Web site. Additionally, the hyperlink for the quarterly investment report for the quarter ended February 29, 2012, was not functional. All of the missing reports (or hyperlinks) were posted (or corrected) to this university's Web site in December 2013. |
| | Reporting | This university contracted with Asset Strategy Consultants as an investment adviser in December 2012. The answer on this university's Web site was not updated to reflect this relationship. The university revised the response to this question in December 2013 to include its relationship with Asset Strategy Consultants. |
| | Reporting | This university's Web site addressed only soft dollar arrangements and did not specifically address the additional arrangements required to be disclosed. The university revised its disclosure on brokerage commission arrangements in December 2013 to include the other arrangements. |
| | Reporting | This university's Web site gives only the name and phone number for the university's vice president for finance and operations; it does not provide the names and addresses of the managers of the Sul Ross State University Friends of the Center for Big Bend Studies' and the Sul Ross State University Support Organization. The university revised its investment disclosure in December 2013 to include the names, addresses, and phone numbers of the foundations' managers which, in this case, are the presidents of the foundations' boards. |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|--|---|--|
| Texas State University System Administration | Reporting | This university's annual investment report was not prepared for August 31, 2012, and, therefore, was not posted in this university's Web site by December 31, 2012. In December 2013, the annual investment reports for both fiscal years 2012 and 2013 were posted to the university's Web site. |
| | Reporting | The most recent version of the Texas State University System investment policy as of December 31, 2012, was not posted to this university's Web site. The November 2013 version of the investment policy was posted on the university's Web site in December 2013. |
| | Reviewing | This university's depository bank, which provides demand deposit services for the university, did not provide its audited financial statements to this university or to the Texas State University System during the 2012-2013 biennium. |
| | Reviewing | The review of cash flow projections required by the Texas State University System investment policy was not formalized or submitted to this university's president in either fiscal year 2012 or fiscal year 2013. |
| | Contracting | The contract with the adviser was signed on December 10, 2010. The contract had no expiration date. A notice of intent to cancel the contract was issued on December 12, 2013. |
| | Policies | The Texas State University System's investment policy was not sent to an investment pool that manages the Texas State University System Administration's public fund. |
| | Policies | An authorized investment pool conducted investment transactions on behalf of the Texas State University System Administration without the investment pool's written acknowledgment that it implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by the Texas State University System's investment policy. |
| | Policies | Texas State University System Administration contracts with an investment adviser. The adviser did not provide the certification of receipt of the Texas State University System's investment policy or annual copies of its ADV disclosure form parts I and II. However, the Texas State University System's auditor was aware that the adviser did receive and review the policies because the auditor reviewed the adviser's proposed changes to both the Operating Funds and Endowment Funds policies for the fiscal years 2012 and 2013 prior to the policies being submitted to the Texas State University System board of regents for approval. The investment advisor provided this university's auditors a certification and the ADV disclosure form parts I and II after auditors brought the issue to the attention of Texas State University System management |
| Reporting | The Texas State University System's yield and expense ratios were not presented on the investment pool's Web site. However, this disclosure is not under the Texas State University System's control. | |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|------------|---------------------------|--|
| | Reporting | The report submitted to the Texas State University System board of regents for the quarter ended May 31, 2012, was a consolidated system-wide report and did not contain detailed information for the Texas State University System Administration or the components. Because the detailed report for the quarter ended May 31, 2012, was not submitted to the board of regents, the Texas State University System did not comply with the specific report requirements in the Act (Texas Government Code, Section 2256.023). |
| | Reporting | Only two of the eight investment reports for the Texas State University System as presented to the Texas State University System board of regents during the 2012-2013 biennium were signed by the investment officer. |
| | Reporting | The maturity date of a \$250,000 certificate of deposit was not reflected in the quarterly report for the quarter ending November 2011. The certificate of deposit matured during the quarter. |
| | Reporting | The quarterly reports submitted to the Texas State University System board of regents for the Texas State University System during the 2012-2013 biennium did not include a specific reference to the compliance of the investment portfolio as it relates to the investment strategy expressed in the Texas State University System's investment policies. |
| | Reporting | The Texas State University System Administration did not submit the required annual investment report to the Comptroller of Public Accounts, Legislative Budget Board, or the Office of the Governor for fiscal year 2012. In comparing the annual investment report for 2013 to the annual financial report (AFR), the Texas State University System Administration's auditor noted a classification error of approximately \$299,000 in the AFR between amounts reported as TexPool and Cash Deposits. The Texas State University System Administration's executive management immediately reported the error to the Comptroller's Office so that an adjusting entry could be made to the AFR for the Texas State University System Administration and the State. As of December 27, 2013, the Texas State University System Administration intended to republish its AFR. |

Universities That Were Substantially Compliant with the Act

| | | |
|---------------------------|-------------|--|
| Texas Southern University | Contracting | This university does not have current, executed investment advisory agreements with its investment managers/advisors, which is required by the Act (Texas Government Code, Section 2256.003). |
| | Reporting | This university had insufficient evidence to substantiate the distribution/presentation of investment reports to the Texas Southern University board of regents on a quarterly basis, and the reports for fiscal year 2013 did not contain all of the requirements of the Act (Texas Government Code, Section 2256.023). |
| Texas Woman's University | Contracting | The Texas Woman's University board of regents approved the initial contracts for the university's investment management companies on September 1, 2010, for two years with three one-year options to renew. However, the university's auditors determined that the board of regents did not approve the first year extension of the contracts. |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|--|---------------------------|--|
| | Policies | The university's internal auditors reported that the university's investment policy does address the quality and capability of investment management; however, the endowment investment and distribution policy does not address the quality and capability of investment management. |
| | Reporting | The university's internal auditors reported that the required questions and answers were posted on this university's Web site via the annual investment report for fiscal years 2012 and 2013. The auditors determined that this university did not update its answer to investment question No. 2 to include whether the university uses directed brokerage or directed commission, commission recapture, or similar arrangements. |
| Stephen F. Austin State University | Reviewing | The university's internal auditors reported that the cash in a bank account managed by the investment advisor was \$370,368 at August 31, 2012. Federal Deposit Insurance Corporation insurance related to that balance was \$250,000, leaving \$120,368 uncollateralized. |
| University of North Texas | Contracting | This university did not have fully executed bank depository agreements with Wells Fargo. The bank depository agreement with Wells Fargo expired on August 31, 2013. |
| | Reporting | The investment portfolio summary graph reported in this university's quarterly investment report for the period ending May 31, 2013, was not accurate. Additionally the earned income figure should have been \$148,566.64 (\$304,933.53 was reported). |
| | Reviewing | As of August 31, 2013, this university reported an investment in both agency securities and Small Business Administration bonds; however, the University of North Texas System Regulation 08.2000 does not include these investments as authorized investments. These investments were authorized by the policy in effect at the time of purchase. In fiscal year 2013, no new securities were purchased and future purchases were not planned. Two of the three agency securities matured in fiscal year 2013, and one matured in September 2013. |
| University of North Texas Health Science Center at Fort Worth (UNTHSC) | Contracting | UNTHSC does not have a current executed bank depository agreement with JPMorgan Chase. The current depository for UNTHSC is JPMorgan Chase. The bank depository agreement with JPMorgan Chase expired on August 31, 2012. The expired agreement states: "The term may be extended until such time as the successor shall have been duly selected and qualified, such extension not to exceed 60 days." |
| | Contracting | UNTHSC does not have a management agreement with the UNTHSC Foundation to manage UNTHSC medical professional liability self-insurance funds. UNTHSC has an executed management agreement with the UNTHSC Foundation for the management of institutional tobacco funds, but that agreement did not include the management of medical professional liability self-insurance funds. |
| | Reporting | UNTHSC did not include disclosure of an external investment advisor in response to the State Auditor's Office disclosure requirement question. UNTHSC answered "no" to the question "Does the institution employ outside investment advisors or managers?" The response should be revised to "yes" because the UNTHSC Foundation manages UNTHSC's endowment funds. |

Universities That Were Not Fully Compliant with the Public Funds Investment Act

| University | Area(s) of Non-compliance | Comments |
|---|---------------------------|---|
| University of North Texas System Administration | Reporting | The first three quarterly investment reports for fiscal year 2013 were not published to UNTHSC's Web site within the time frame required by the State Auditor's Office. The quarterly investment reports for November 30, 2012, February 28, 2013, and May 31, 2013, were not published to UNTHSC's Web site until November 7, 2013. The State Auditor's Office requires that quarterly reports be published on an entity's Web site within 90 days of the end of the quarter or 7 days after the investment report is presented to the University of North Texas System board of regents, whichever occurs first. UNTHSC's quarterly report for August 31, 2013, was published within State Auditor's Office guidelines. |
| | Reviewing | Signatory authority for the former UNTHSC vice president of finance and chief finance officer was not removed from the bank account until 10 months after he left his position. The former vice president of finance and chief finance officer for UNTHSC remained with signatory authority for more than 10 months while not in a role to warrant that authority. |
| | Contracting | The University of North Texas System Administration did not have fully executed bank depository agreements with Wells Fargo. The bank depository agreement with Wells Fargo expired August 31, 2013. |
| | Reporting | A report of investment performance over the course of the year was not submitted to the University of North Texas System Administration board of regents at its first regularly scheduled board meeting following the end of the fiscal year as required by University of North Texas System Administration regulation 08.2000. |
| University of North Texas at Dallas | Contracting | This university did not have fully executed bank depository agreements with Wells Fargo. The bank depository agreement with Wells Fargo expired August 31, 2013. |

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

Table 9

Community College District That Was Not Fully Compliant with the Public Funds Investment Act

| Community College District | Areas of Non-compliance | Comments |
|---|-------------------------|---|
| Community College District That Was Substantially Compliant with the Act | | |
| San Jacinto College District | Policies | This community college district did not have the most current investment policy on its Web site. This community college district had posted on its Web site an investment policy with an effective date of September 2012. During fiscal year 2013, this investment policy was amended and accordingly, had a new effective date of April 2013. The amended policy was not properly posted on this community college district's Web site. However, as of November 21, 2013, the community college district's Web site included the most recent investment policy. |
| | Reporting | Although this community college district posted all quarterly and annual investment reports on its Web site, it failed to prepare the reports in the new format prescribed by the State Auditor's Office. This community college district's annual investment reports as of August 31, 2013, and August 31, 2012, and the fiscal year 2013 and 2012 quarterly investment reports |

Community College District That Was Not Fully Compliant with the Public Funds Investment Act

| Community College District | Areas of Non-compliance | Comments |
|----------------------------|-------------------------|---|
| | Reviewing | <p>on the community college district's Web site were updated as of November 21, 2013 to be in compliance with the State Auditor's Office's format.</p> <p>Four municipal obligations were improperly classified as having greater than one year maturity on this community college district's annual investment report as of August 31, 2013.</p> |

Source: Findings listed are based upon reviews of the audit report issued by the community college district's external auditors.

Definitions of Investment and Deposit Types

Table 10 provides the definitions of investment and deposit types.

Table 10

| Definitions of Investment and Deposit Types | |
|--|---|
| Investment/Deposit Type | Definition |
| Annuity | A type of contract sold by insurance companies guaranteeing fixed or variable future payments. |
| Asset Backed Securities (ABS) | Securities backed by pools of assets such as credit card receivables, home equity loans, and auto loans, but typically excluding mortgages. |
| Balanced Mutual Funds | Mutual funds that expect to invest in a mix of equity and debt investments. (Categorize in the "Publicly Traded Equity & Similar" category if the fund's target allocation is expected to be > 50% equities. Otherwise, categorize in the "Publicly Traded Debt & Similar" category.) (See also Mutual Funds.) |
| Bank Deposits | Amounts reported in this category should include balances held in a financial institution such as a bank, savings bank, or credit union as "demand deposits" (which the customer can withdraw at any time without penalty) or "time deposits" (which might be subject to restrictions on immediate withdrawal). However, bank deposits do not include certificates of deposit. Although non-negotiable certificates of deposit are generally considered time deposits, these balances should be separately disclosed on the annual investment report. (See also Certificates of Deposit.) |
| Bankers' Acceptances | A time draft drawn on a bank by a bank's customer, ordering the bank to pay an amount at a future date, generally within a short time period. When accepted by the bank, it can be traded in secondary markets, usually as a money market instrument. |
| Cash Held at State Treasury | All deposit balances held by the State Comptroller in the State Treasury. Institutions should not include funds invested in TexPool or TexPool Prime. Amounts managed by the Texas State Treasury Safekeeping Trust Company should be reported in the appropriate investment categories, and any uninvested cash held by the Trust Company should be reported as bank deposits. |
| Certificates of Deposit (CD) | Time deposits with a financial institution that may not be withdrawn prior to maturity without a penalty. "Negotiable CDs" are issued in large dollar amounts and are traded in secondary markets. Although some entities might report nonnegotiable CDs in their financial statements under the "Investments" category, they are considered deposits, whereas negotiable CDs represent investment securities. CDs are insured by the Federal Deposit Insurance Company. (Categorize nonnegotiable CDs separately from negotiable CDs on the annual investment report.) |
| Collateralized Mortgage Obligations (CMOs) - Agency or Private Label | CMOs consist of pools of mortgage pass-through securities or mortgage loans in which the cash flows of principal and interest payments are directed in a prescribed manner to different underlying classes of the CMOs. The different classes are referred to as "tranches," with each tranche structured to have different expected risk, return, and maturity characteristics. "Agency" CMOs are those that are guaranteed, or issued and guaranteed, by U.S. government agencies. "Private Label" CMOs are issued by, and are the sole obligation of, the private issuers, which might be financial institutions, subsidiaries of investment banks, or home builders. Certain tranches are generally prohibited by the Public Funds Investment Act (PFIA), including "Interest Only Strips (IOs)," "Principal Only Strips (POs)," and "Inverse Floaters." The PFIA also does not authorize most investing entities to acquire CMOs that have a final stated maturity exceeding 10 years. |
| Collectibles | Rare items collected by investors, such as art, stamps, coins, antiques, and memorabilia. |
| Commercial Paper - A1/P1 (or equivalent) | Commercial paper is a type of short-term, unsecured obligation issued by banks, corporations, or other borrowers, usually issued at a discount and with maturities of 270 days or fewer. A1 and P1 denote the highest short-term rating categories used by Standard & Poors and Moody's, respectively. (Lower rated commercial paper should be listed under "Other Commercial Paper - Lower Rated.") |
| Commingled Fund | An external manager pools and invests the funds of several institutional investors. Securities are owned by the overall fund, and each investor owns a pro rata share of the fund. The Securities and Exchange Commission (SEC) does not oversee commingled funds. (Classification on the annual investment report should be based on the underlying assets in which the fund primarily invests, e.g. publicly traded equities, publicly traded debt, or "other" investments.) |

| Definitions of Investment and Deposit Types | |
|--|---|
| Investment/Deposit Type | Definition |
| Commodities | Includes investments in bulk goods such as grains, metals, foods, energy products such as crude oil, heating oil, gasoline, and natural gas. Commodities are often traded using futures contract, however investing can also involve spot market trades or taking physical possession of the commodities. |
| Commonfund | Also known as “The Common Fund for Nonprofit Organizations,” this is a private, nonprofit organization that is exempt from taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f)). Commonfund offers participating clients the ability to invest in a wide range of commingled investment funds, including fixed income, equity, and alternative assets. |
| Common Stock (publicly traded) | Also referred to as equities, or equity securities, common stock represents units of ownership in a publicly held corporation. Shareholders typically have rights to vote and to receive dividends. Claims of common stock holders are subordinate to claims of creditors, bond holders, and preferred stock holders. |
| Corporate Obligations (U.S. or foreign corporations) | Debt securities issued by U.S. or foreign corporations. Excludes debt issued by governmental entities (see Sovereign Debt). (Group by credit rating category, or, if applicable, as “not rated.”) |
| Equity/Stock Mutual Funds | Mutual funds that invest primarily in stocks, although at times they might hold some fixed-income and money market securities. (See also Balanced Mutual Funds description.) |
| Equity Securities | Stock as opposed to bonds. The term is often used to refer to “common stock” (see Common Stock definition); however “preferred stock” is also considered an equity security (see Preferred Stock definition). |
| Fixed Income/Bond Mutual Funds | Mutual funds that, by policy, invest in the fixed-income sector. (See also Mutual Funds.) |
| GICs (Guaranteed Investment Contracts) | GICs represent contracts issued by insurance companies that promise to pay a specified rate of interest on the invested capital over the life of the contract. GICs are sometimes referred to as “guaranteed insurance contracts.” |
| Hedge Funds | Hedge funds may be broadly defined as pooled funds that are not registered with the SEC; are typically available only to institutional investors or individuals with a high net worth; and use advanced trading strategies such as leverage, derivatives, short selling, and arbitrage. |
| Highly Rated Corporate Obligations | Based on the description in the PFIA for “Authorized Investments: Institutions of Higher Education,” this category is limited to corporate debt obligations rated by a nationally recognized investment rating agency in one of its two highest long-term rating categories, without regard to gradations (e.g. + or -) within those categories. The two highest rating categories for Standard and Poor’s and Fitch Ratings are AAA and AA, while the two highest categories for Moody’s are Aaa and Aa. |
| High Yield Bonds | Corporate obligations that are considered below “investment grade” and are also referred to as “junk bonds” or “speculative grade.” Such corporate securities are rated BB or lower by Standard and Poor’s or Fitch Ratings and Ba or lower by Moody’s. |
| Market Value | In general, this equates to the “fair value” of an investment, as defined in Governmental Accounting Standards Board Statement No. 31 (GASB 31). Reporting entities that report certain short-term, highly liquid debt instruments, such as commercial paper, bankers’ acceptances, and U.S. Treasury and agency obligations (“money market investments”) on their balance sheet at “amortized cost” may report the same value on the annual investment report in the “Market Value” column for consistency. |
| Money Market Mutual Fund (or Money Market Fund) | An open-end mutual fund (registered with the SEC) that must comply with the SEC’s “Rule 2a-7,” which imposes certain restrictions, such as a requirement that the fund’s board must attempt to maintain a stable net asset value (NAV) per share or stable price per share, limits on the maximum maturity of any individual security in the fund’s portfolio and on the maximum weighted average portfolio maturity and weighted average portfolio life. Money market funds typically attempt to maintain an NAV or a price of \$1.00 per share. (Institutions should report the “market value” of their money market fund investments based on the fund’s share price.) |
| Mortgage Pass-throughs - Agency | Mortgage pass-throughs are securities created by pooling mortgages, in which investors receive a pro-rata share of payments of principal and interest on the pool of mortgages. Agency mortgage pass-throughs are guaranteed by a U.S. government agency or government sponsored enterprise (GSE). |
| Mortgage Pass-throughs - Private Label | Private label mortgage pass-throughs are issued by institutions such as subsidiaries of investment banks, financial institutions, and home builders. They are the obligation of the issuers and are not guaranteed by the U.S. government or any government sponsored enterprise. |

Definitions of Investment and Deposit Types

| Investment/Deposit Type | Definition |
|---|---|
| Municipal Obligations | Debt, typically bonds, issued by states, cities, counties, or other government entities. Income on some municipal bonds is exempt from both federal and state income taxes, while, for other municipal bonds, the income is not exempt from federal taxation. |
| Mutual Funds | Similar to commingled funds, the funds of multiple investors are pooled by the external manager. The investors own shares of the fund but do not own the individual securities. The public, as well as institutional investors, can invest in mutual funds. In contrast to commingled funds, mutual funds are regulated by the SEC. (See also Money Market Funds, a subset of mutual funds that should be categorized separately.) |
| Not Rated (NR) Corporate Obligations | Issues that have not been rated by a major rating agency. Standard and Poor's uses NR to designate issues for which no rating was requested; there was insufficient information on which to assign a rating; or, by policy, it does not rate that particular obligation. |
| Other Commercial Paper - lower rated | Commercial paper rated below the highest short-term rating categories used by major rating agencies (i.e., below A-1, P-1, or equivalent ratings). |
| Other Investment Grade Corporate Obligations | Corporate debt obligations that are not categorized as "Highly Rated Corporate Obligations" but, nevertheless, receive an "investment grade" rating from a nationally recognized investment rating agency. Ratings of A or BBB by Standard and Poor's or Fitch Ratings and A or Baa by Moody's are considered "investment grade." |
| Other Real Asset Investments | Real assets typically exist in physical form and are generally considered to include "hard assets" that are used to produce goods or services, in contrast to "financial assets," such as stocks and bonds, which represent a claim on the income provided by real assets. Examples of real assets include real estate, timber, commodities like oil and gas, and infrastructure. (Institutions should categorize investments in real estate separately from their investments in "other real assets" if managed as distinct portfolios. See also Real Estate.) |
| Preferred Stock | A class of capital stock in a corporation distinct from common stock. Preferred stock generally carries no voting rights, pays a specified dividend, and it has preference over common stock in the payment of dividends or in the event that corporate assets are liquidated. Although preferred stock has some features similar to bonds, it is classified as an "equity" investment. |
| Private Equity | Private equity funds are privately managed investment pools, typically organized as limited partnerships. They are managed by the fund's general partners who typically make long-term investments in private companies and who may take a controlling interest with the aim of increasing the value of these companies, often by helping to manage the companies. Private equity fund strategies include venture capital investments and leveraged buyouts, among others. (Institutions that make direct investments in private companies, often as "co-investments" alongside a private equity fund in which they invest, also should categorize such investments as "Private Equity.") |
| Public Funds Investment Pool Created to Function as a Money Market Mutual Fund & Other Investment Pools | The PFIA describes the criteria for allowable investments in "investment pools," including those it describes as a "public funds investment pool created to function as a money market mutual fund." These types of pools are typically also referred to as "local government investment pools" or "LGIPs." They often function like money market mutual funds (see discussions at "TexPool" and "Money Market Funds") and might be referred to as "2a7-like" pools, but they are not required to register with the SEC. Other investment pools might choose not to function like money market funds, and therefore might permit a floating NAV, longer overall or individual investment maturity, and higher potential investment risk and return. (Institutions should separately categorize investments in (1) TexPool, (2) Other Public Funds Investment Pools Functioning as Money Market Mutual Funds, and (3) Other Investment Pools that do not operate as money market funds.) |
| Real Estate | Includes real estate held for investment directly or through investment vehicles such as private investment funds, which are limited partnerships that invest in real estate. Such investments are designed to produce high current income and/or capital gains through appreciation in the underlying real estate. (Does not include real estate not held for investment, such as campus buildings.) |
| REITs (Real Estate Investment Trusts) | REITs, or real estate investment trusts, are companies that invest in real estate by investing directly in portfolios of various types of real estate properties and/or by making loans to building developers. Although generally they are publicly traded on major exchanges and available to all investors, some REITs are established as private investments, which can reduce the liquidity of such investments. (Private REITs should be categorized on the annual investment report as Real Estate in "Other Investments.") |

Definitions of Investment and Deposit Types

| Investment/Deposit Type | Definition |
|---|---|
| Repurchase Agreements (Repos) | Short-term investment agreements in which an investor buys securities, usually U.S. government securities, from a seller and the seller agrees to repurchase them at a later date for a slightly higher price that is negotiated between the parties. Such arrangements function as money market investments with either a fixed maturity date, often overnight, or an open term, in which they are callable at any time. |
| Securities Lending Collateral Reinvestments | Institutions that participate in securities lending programs often receive cash as collateral for their loaned investments. The cash is normally reinvested, typically by the entity's lending agent, in a separate account for the lender or as part of a collateral investment pool that commingles the cash collateral received by multiple lenders. The cash collateral is typically invested in investments having relatively low credit risk, and interest rate risk is reduced by maintaining a relatively short average portfolio maturity. (An institution involved with securities lending should report the value for its share of any reinvested cash collateral in the same amount on its annual investment report and on its financial statements.) |
| Separately Managed Account | Securities in the external manager's portfolio are owned directly by the investing entity and are held by each investing entity's custodian bank. The investing entity can require the external manager to adhere to specific investment guidelines. |
| Short-term Investments | Includes all debt investments maturing within one year of the purchase date. |
| Short-Term Mutual Funds (other than Money Market funds) | Mutual funds that specialize in short-term debt instruments, but that do not meet the strict criteria required to be called "money market" mutual funds. (If not reported as fixed income mutual funds in the section for Debt and Similar Investments > 1 Year Maturity, institutions should report non-money market, short-term fixed income mutual funds in the section for Short-Term Investments and Deposits.) |
| Sovereign Debt (non-U.S.) | Debt securities issued or guaranteed by foreign governments. |
| TexPool (and TexPool Prime) | TexPool and TexPool Prime are local government investment pools administered by the Texas Treasury Safekeeping Trust Company at the Office of the Comptroller of Public Accounts. Both funds are operated according to the rules governing money market mutual funds (the SEC's "Rule 2a-7"), which require a policy to maintain a stable net asset value per share (both funds seek to maintain a \$1.00 NAV per share) and impose limitations on maximum maturities of the overall portfolio and any individual security. Unlike true mutual funds, local government investment pools (whether or not organized to operate as money market mutual funds) are not required to register with the SEC. |
| U.S. Government Agency Securities | Also called "Agency Securities" or "Agencies," these represent debt securities (1) issued or guaranteed by U.S. federal government agencies or (2) issued by government sponsored enterprises (GSEs). Debt securities issued or guaranteed by U.S. federal government agencies, like U.S. Treasury Securities, are backed by the full faith and credit of the U.S. government. However, debt securities issued by GSEs are not backed by similar U.S. government guarantees, and therefore they are considered to carry more credit risk than securities issued or guaranteed by federal government agencies. |
| U.S. Government Securities | Also called "U.S. Treasury Securities" or "Treasuries," U.S. government securities are negotiable debt obligations, such as treasury bills, treasury notes, and treasury bonds, that are backed by the full faith and credit of the U.S. government. |

Source: The explanation of terms used on the annual investment report (including deposits) is available on the State Auditor's Office's Web site at <http://www.sao.state.tx.us/Resources/IntAud/HigherEdInvestReporting.html#3>.

Related State Auditor's Office Work

| Related SAO Work | | |
|------------------|--|--------------|
| Number | Product Name | Release Date |
| 12-035 | A Report on State Agency, University, and Community College District Compliance with the Public Funds Investment Act and Investment Reporting Requirements | June 2012 |
| 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 Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, 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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