Texas Water Development Board

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Review of Compliance with the Public Funds Investment Act

Debt Portfolio Management Division
Project #20140103
April 2014

Our Mission

To provide leadership, planning, financial assistance, information, and education for the conservation and responsible development of water for Texas

Board Members

Carlos Rubinstein, Chairman | Bech Bruun, Member | Kathleen Jackson, Member

Kevin Patteson, Executive Administrator

Project Team

Robert Sahm, CPA, CISA
Amanda Jenami, CPA, CISA, CFE, CIA, CGAP, CCSA, MBA, Director

Executive Summary

Overall, Texas Water Development Board (TWDB) has processes in place to ensure investments are accurately reported and that compliance with the Public Funds Investment Act (Act) (Texas Government Code §2256.005) and agency rules is achieved. There is an opportunity to improve how information is reported within the quarterly investment reports (to the Board).

The annual audit plan for fiscal year 2014 includes a review of TWDB's investment activities for compliance with the Public Funds Investment Act. Debt and Portfolio Management (DPM), a division within the Finance Office, is responsible for the management of TWDB's investments.

Background

TWDB had an investment portfolio of approximately $883 million as of August 31, 2013, the largest component of which was invested in U.S. Treasury notes. These investment resources represented the various funds and accounts maintained by the Board and the Texas Water Resources Finance Authority (TWRFA) in administering its financial assistance programs in compliance with bond, statutory, and contractual requirements.

Objectives and Conclusions

Objectives - Regulatory Compliance

Determine the extent to which investment activities comply with the Act and TWDB's investment policy.

The audit found that TWDB's investment policy includes the elements required by the Act. The policy emphasizes safety of the principal, liquidity to meet cash flow needs, marketability, and portfolio diversification. These principles are primarily accomplished with the purchase of securities of less than 360 days' maturity, most of which are backed by the full faith and credit of the U.S. government and U.S. government agencies in a laddered structure in the Texas State Treasury or the Texas Treasury Safekeeping Trust Company. The Board has reviewed its investment policy and strategies at least annually, as required by the Act.

Determine the extent to which processes ensure that the information in the quarterly investment reports is reliable and accurately presented.

The reports of investment activities for Fiscal Years 2012 and 2013 were completed in compliance with the Act, Chapter §2256.023, Internal Management Reports. The reports were presented to the Board within a reasonable time period after the end of each quarter and included all the required information, including maturity dates and book and market value of each separately invested asset at the beginning and end of each reporting period. However, the review found an opportunity to clarify the way Enterprise Fund investment securities are reported within these quarterly reports. In addition, including State and Local Government Series (SLGS) in the quarterly reports would provide a more complete picture.

Determine the extent to which TWDB investment goals and objectives are achieved and the extent to which funds are protected and properly managed.

The review found the investment management duties and responsibilities to be adequately segregated among maintaining security information on fund type and purchase and maturity dates, maintaining investment book values, and monitoring market values. These are performed by TWDB's DPM, Accounting divisions, and the Texas Safekeeping Trust Company.

Detailed Issues with Management Responses

The Classification of Some Investment Securities Within the Quarterly Reports

The Enterprise Fund's investments include commercial paper, agency callable, repurchase agreements, and treasury notes that were incorrectly classified as "Treasury/Trust Cash" within the quarterly investment reports. The 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" (Sec. 2256.023(b)(5)) and "…state the maturity date of each separately invested asset that has a maturity date" (Sec. 2256.023(b)(6)).

In addition, including State and Local Government Series (SLGS) in the quarterly reports would provide a more complete picture of the agency's investments. The agency had SLGS of $48,000 as of August 31, 2013.

Recommendations:

Management should improve the quality of the quarterly investment report information by

(i) Classifying and reporting separately each invested asset for the Enterprise Fund
(ii) Including SLGS in the investment reports

Management Action Planned:

Management agrees, effective with the quarterly investment report of May 31, 2014, each invested asset will be reported separately.

Responsible Parties:

Investment Officer

Estimated Completion Date:

July 31, 2014

Closing

Internal Audit would like to thank the DPM Division for the cooperation and assistance provided to the Internal Audit staff. For questions or additional information concerning this audit report, please contact Amanda Jenami at 512-463-7978.

Appendix: Scope and Methodology

The review focused on activities from September 1, 2011, to August 31, 2013. Fieldwork was conducted from March 27 to April 2, 2014.

Our audit was based upon standards as set forth in the Public Funds Investment Act, TWDB's Investment Policy, and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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