



Review of Compliance with the Public Funds Investment Act

Project #2026.05
December 2025

Executive Summary

Internal Audit reviewed Fiscal Years 2024 and 2025 investment activities to determine whether agency processes and management controls ensure compliance with the requirements of the Public Funds Investment Act (Texas Government Code, Chapter 2256) and the Texas Water Development Board's (TWDB) investment policy.

Overall, we found the agency complied with the requirements outlined in the Public Funds Investment Act (PFIA) and the TWDB investment policy. Additionally, all prior audit recommendations related to investment activities were implemented, and no additional issues were identified through this audit.

Background

The Public Funds Investment Act (Act) governs the investment of government funds in Texas. The Act requires certain Texas state agencies, universities, and local governments to arrange for a biennial compliance audit of management controls on investments, and adherence to the entity's established investment policies, for those funds the entity is authorized to invest.

The TWDB investment policy assigns the responsibility for performing this audit to the Internal Audit Division. Additionally, the results of the audit must be reported to the State Auditor's Office by January 1 of each even-numbered year.

The TWDB investment policy designates the Chief Financial Officer, Development Fund Manager, and the Director of Accounting as the agency's investment officers. Investment officers are responsible for managing and reporting on the agency's investment activities.

The market value of all investments, as of August 31, 2025, totaled approximately \$4.9 billion for funds managed by TWDB. Investments included cash, money market funds, commercial paper, repurchase agreements, and various federal, state, and local securities. These investment resources represented funds and accounts maintained by TWDB in administering financial assistance programs.

Objectives, Scope, and Methodology

Objectives

The objective of the audit was to determine whether agency processes and management controls ensure compliance with the requirements of the Texas Government Code, Title 10, Subtitle F, Chapter 2256 (Public Funds Investment Act).

This involved assessing whether investment transactions were authorized, accurately recorded and reported, and whether investment activities complied with the requirements of the Act and TWDB's investment policy.

Scope and Methodology

The scope of the audit covered Fiscal Years 2024 and 2025 (September 1, 2023 - August 31, 2025) investment activities and was limited to funds managed by the TWDB.

The methodology for the audit consisted of a review of the following documentation:

- Public Funds Investment Act (Texas Government Code, Chapter 2256).
- TWDB investment policies and internal procedures.
- Board memos, meeting minutes, and agendas.
- Funds Management and Investment Agreement between TWDB and the Texas Treasury Safekeeping Trust Company.
- Quarterly investment reports and all related correspondence and source documentation.
- Investment training records, reports, materials, and certificates of completion.
- Review of Compliance with Public Funds Investment Act and Review of Quarterly Investment Reports.
- Public Funds Investment Act and Personal Business Relationship Disclosure Questionnaire.
- Ethics Training Acknowledgement (Conflict of Interest) Forms.

Tests and procedures included the following:

- Conducting interviews with management and staff.
- Determining whether the investment policy included the required elements.
- Determining whether quarterly investment reports included the specific components required by the Act.
- Testing investment transactions and holdings for adherence to strategies, restrictions, controls and objectives, as defined in the TWDB investment policy.
- Reconciling quarterly investment reports to source documentation, including the investment transaction detail and holdings data, to determine accuracy.
- Selecting a sample of investment transactions and validating management controls to ensure assets were properly processed, safeguarded, and reported.

This engagement was conducted in accordance with the Generally Accepted Government Auditing Standards and the Global Internal Audit Standards. These 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 the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

The audit team consisted of:

David Ramos

Michelle Cooper, CGAP, CFE, CICA

Nicole Campbell, CIA, CISA, MPA

Detailed Results

Internal Audit reviewed Fiscal Years 2024 and 2025 investment activities to determine whether agency processes and management controls ensure compliance with the requirements of the Public Funds Investment Act (Texas Government Code, Chapter 2256) and TWDB's investment policy.

Overall, we found the agency complied with the requirements outlined in the Act and the investment policy. Specifically:

- The agency's written investment policy included all of the key elements required by Section 2256.005. The policy emphasized safety of the principal, liquidity to meet cash flow needs, marketability, and portfolio diversification. Additionally, the Board reviewed and approved the investment policy and strategies annually.
- Training sessions were attended by Board members and investment officers, as required by Section 2256.007. The training sessions were related to the individual's responsibilities and were completed within the first six months after taking office or assuming duties, and for each investment officer, a training session was completed during the most recent fiscal biennium. We also noted that a report on training activities was provided to the Board, as required by Section 2256.007(d).
- The biennial compliance audit was performed, and the results were reported to the Board, as required by Section 2256.005(n). An independent review of the quarterly reports was performed, and the results were reported to the Board, as required by Section 2256.023(d).
- Investment transactions and holdings were evaluated to determine whether they complied with TWDB's investment policy, including portfolio objectives and strategies by fund types, authorized investments, and restrictions, and as prescribed by Section 2256.009-016. Our review found that the investment activity adhered to the requirements of the Act and the investment policy, and no discrepancies were noted.
- Fiscal Year 2025 quarterly investment reports included all attributes required by Section 2256.023(b), including:
 - ✓ Detail of the agency's investment position.
 - ✓ Signatures of each investment officer.
 - ✓ A summary statement for pooled funds.
 - ✓ Book and market values of each separately invested asset at the end of the reporting period by asset and fund type.
 - ✓ Maturity dates for each separately invested asset.
 - ✓ Fund types for each individual investment that was acquired.
 - ✓ A statement regarding compliance of the investment portfolio as it relates to the TWDB investment policy and strategies and the Act.

The reports were also presented to the Board within a reasonable time after the end of each quarter, in accordance with the agency's internal operating procedures and Section 2256.023(c).

- Each investment officer completed and submitted a disclosure statement, as required by Section 2256.005(i).

All prior audit recommendations related to investment activities were implemented, and no additional issues or recommendations were identified through this audit.

Closing

Internal Audit expresses our appreciation to management and personnel for their cooperation and assistance provided during this review. For questions or additional information concerning this report, please contact Nicole Campbell at (512) 463-7978.

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