

Texas Water Development Board



Review of Compliance with the Public Funds Investment Act

Project #2022.05
December 2021

Executive Summary

We reviewed fiscal year 2020 and 2021 investment activities to determine whether agency processes ensure compliance with the requirements of the Public Funds Investment Act (Texas Government Code, Chapter 2256) and the Texas Water Development Board (TWDB) investment policy. Our review included an evaluation of internal controls.

Overall, we found that the agency complied with the requirements outlined in the Public Funds Investment Act and the TWDB investment policy. Specifically:

- The agency's written investment policy included all required key elements, and the Board reviewed and approved the investment policy and strategies annually.
- Training sessions were attended by each Board member and investment officer, and a report on training activities was provided to the Board.
- The biennial compliance audit and an independent review of the quarterly reports were performed, and the results of each were reported to the Board.
- Investment transactions and holdings adhered to the requirements of the Act and the investment policy, and there were no discrepancies noted.
- Fiscal year 2021 quarterly investment reports included all of the required attributes and were also presented to the Board within a reasonable time period after the end of each quarter.
- Each investment officer completed and submitted a non-disclosure statement.

However, an opportunity exists to strengthen existing processes and internal controls to ensure information included in the quarterly investment reports is accurate.

Background

The Public Funds Investment Act (Act) governs the investment of government funds in Texas. The Act requires certain 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, the 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.

As of August 31, 2021, the market value of all investments totaled approximately \$2.9 billion for those funds managed by the TWDB, and included cash, money market funds, commercial paper, repurchase agreements, and a variety of federal, state, and local securities. These investment resources represented the various funds and accounts maintained by the TWDB and the Texas Water Resources Finance Authority in administering financial assistance programs.

Objectives, Scope, and Methodology

Objectives

The objective of the audit was to review the agency's investment activities to determine whether processes ensure compliance with the requirements of the Public Funds Investment Act and the TWDB investment policy. This included:

1. Determining whether policies and procedures complied with the Act, and such policies and procedures were appropriate and reasonable for the agency's investment types and investment goals; and
2. Determining whether internal controls over investments were sufficient to safeguard assets, ensure proper conduct by participants in the investment process, and eliminate conflicts of interest.

Scope and Methodology

The scope of the audit covered fiscal year 2020 and 2021 (September 1, 2019 to August 31, 2021) 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 Texas Treasury Safekeeping Trust Company.
- Quarterly investment reports and all related correspondence and documentation.
- Investment training records, reports, materials, and certificates of completion.
- Review of Compliance with the Public Funds Investment Act and Review of Quarterly Investment Reports.
- Public Funds Investment Act (PFIA) and TWDB Personal Business Relationship Disclosure Questionnaires.
- 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 the 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 the quarterly investment reports to the investment transaction detail and holdings data to determine accuracy.
- Selecting a sample of investment transactions and validating that controls ensured assets were properly processed, safeguarded, and reported.

This engagement was conducted in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. 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 that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

The audit team consisted of:

Nicky Carter, CICA

Michelle Cooper, CFE, CGAP, CICA

Nicole Campbell, CIA, CISA

Detailed Results

We reviewed fiscal year 2020 and 2021 investment activities to determine whether agency processes ensure compliance with the requirements of the Public Funds Investment Act (Texas Government Code, Chapter 2256) and the TWDB investment policy. Our review included an evaluation of internal controls.

Overall, we found that 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 each Board member and investment officer, 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 also performed and the results were also reported to the Board, as required by Section 2256.023(d).
- Investment transactions and holdings were evaluated to determine whether they complied with the investment policy, including portfolio objectives and strategies, 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 2021 quarterly investment reports included all of the 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 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 period 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 non-disclosure statement, as required by Section 2256.055(i).

However, we identified an opportunity to strengthen existing processes and internal controls to ensure information included in the quarterly investment reports is accurate.

1. Earnings for the period and quarterly average yields were inaccurately reported for the Quarterly Investment Report for the Quarter Ending May 31, 2021.

We verified the accuracy of the fiscal year 2021 quarterly investment reports by reconciling investment transaction detail and holdings data provided by the TTSTC to the balances included in the quarterly investment reports.

For the report ending May 31, 2021, our review found that earnings for the period were inaccurately reported for treasury funds of state pools, the pooled funds total, and the portfolio totals. We also noted the quarterly average yield percentages were inaccurately reported for treasury funds of state pools, the pooled funds total, debt service funds, TWRFA funds, and the portfolio totals. This information is included within the Portfolio Summary by Fund table of the report.

The earnings for the period and the quarterly average yield percentages were reported to be lower in the quarterly investment report, than those calculated and included in the supporting documentation for the report.

Although procedures for preparing quarterly investment reports include a peer review step, it did not identify the error.

The Quarterly Investment Report for the Quarter Ending May 31, 2021, was revised and updated with the correct earnings for the period and the quarterly average yield percentages. The revised report was presented to the Board and Executive Administration on December 27, 2021.

Recommendation

Controls should be strengthened to ensure information included in the quarterly investment reports is accurate.

Management's Response: *Management agrees that controls should be strengthened to ensure accurate information is included in each Quarterly Investment Report and will do so by enhancing its review procedures and exploring options for creating automated reports which will require less manual compilation.*

Responsible Party: *Chief Financial Officer*

Implementation Date: *July 1, 2022*

Closing

We would like to express our appreciation to all of the management and personnel for their cooperation and assistance provided to the internal audit staff during this review. For questions or additional information concerning this report, please contact Nicole Campbell at (512) 463-7978.

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