



Lawrence F. Alwin, CPA
State Auditor

A Review of
**Higher Education
Investment Reporting Requirements**

July 10, 2002

Members of the Legislative Audit Committee:

The investment reporting requirements with which state higher education institutions (institutions) must comply can be improved so that these institutions provide more useful information. The improvements we propose also reduce the compliance burden on institutions and enhance public disclosure of investment information. Rider 5, page III-231, the General Appropriations Act (77th Legislature), and the Public Funds Investment Act (Act) require institutions to report certain information regarding their investments. Rider 5 and the Act require the State Auditor's Office to prescribe the method and manner for reporting this information. Collectively, these institutions held \$20.509 billion in cash and investments as of August 31, 2001.

The key investment reporting changes we propose include the following:

- Strengthening assurances regarding community college districts' compliance with the Act. In fiscal year 2001, independent auditors for 26 of the 50 community colleges chose not to express an opinion regarding the community colleges' compliance with the Act. The lack of an independent auditor's opinion regarding compliance with the Act provides the State with insufficient assurance regarding the adequacy of community colleges' investment activities.
- Simplifying the format and method of distribution for institutions' quarterly investment reports. Currently, institutions submit customized reports to the State Auditor's Office, the Comptroller of Public Accounts, the Governor's Office, and the Legislative Budget Board by mail each quarter. These institutions also report to their respective boards on a periodic basis. We propose that each institution use its own existing format for communicating required investment information to its board. In addition, rather than submitting quarterly information by mail, each institution can make this information available by publishing it on its Web site. This would reduce distribution and filing burdens while enhancing the availability of the information.
- Updating the standard format and method of distribution for institutions' annual investment reports. In addition to submitting fourth-quarter investment reports, we propose that institutions submit standard annual reports. Our proposed format for annual investment reports would enable our Office to create a more precise higher education investment database and allow us to provide the Legislature and other interested parties with more useful investment information.
- Requiring institutions to publish their investment policies on their Web sites. When boards reaffirm or approve any changes to their investment policies, institutions would be required to update the investment policies posted on their Web sites within 30 days of the approval of such changes. This would enhance the availability of information and ensure that it is up-to-date.

SAO Report No. 02-058

Members of the Legislative Audit Committee
July 10, 2002
Page 2

The attachment to this letter contains additional details on the investment reporting requirements we propose. We appreciate the cooperation of the institutions. If you have any questions, please contact Carol Smith, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

khm

Attachment

cc: Chief executive officers and chief financial officers of all state institutions of higher education

Improving Institutions' Investment Reporting Requirements Can Provide More Useful Information, Reduce Institutions' Compliance Burden, and Enhance Public Disclosure

The investment reporting requirements with which state higher education institutions (institutions) must comply can be improved so that these institutions provide more useful information. The improvements we propose reduce the compliance burden on institutions and enhance public disclosure.

Specific improvements that should be made include the following:

- Independent auditors should be required to provide assurances regarding community colleges' compliance with the Public Funds Investment Act (Act). In fiscal year 2001, independent auditors for 26 of the 50 community college districts chose not to express an opinion regarding the community colleges' compliance with the Act. As a result, the State had insufficient assurance regarding the adequacy of community colleges' investment activities.
- Institutions' quarterly investment reporting requirements should be simplified so that institutions can report information on their Web sites using their own reporting formats. The current quarterly reporting requirements compel institutions to submit customized reports to the State Auditor's Office, the Comptroller of Public Accounts, the Governor's Office, and the Legislative Budget Board by mail each quarter.
- Institutions' annual investment reporting requirements should be updated and standardized to allow more precise aggregation and reporting of information to the Legislature and other interested parties.
- Institutions should post up-to-date investment policies on their Web sites. Currently, institutions must mail their investment policies to the State Auditor's Office and the Legislative Budget Board annually.

Institutions Must Submit Investment Information in a Format Prescribed by the State Auditor's Office

Rider 5, page III-231, the General Appropriations Act (77th Legislature), and the Public Funds Investment Act (Act) require institutions to report certain information regarding their investments.

Rider 5 and the Act require the State Auditor's Office to prescribe the method and manner for reporting this information.

Chapter 1.1

Independent Auditors for Community College Districts Should Provide Assurances Regarding Compliance with the Public Funds Investment Act

In *A Review of State Entity Compliance With the Public Funds Investment Act* (SAO Report Number 02-039, May 2002), we reported that all 50 community college districts relied on their independent auditors to verify whether they met the requirements of the Act. However, independent auditors for 26 community colleges chose not to express an opinion regarding the community colleges' compliance

status. While choosing not to express an opinion may conform with generally accepted government auditing standards, it does not provide the State with sufficient assurance regarding the community colleges' investment activities.

Assurances regarding compliance with the Act are an important tool for ensuring that community college investments are managed prudently, protected from loss, and available for their intended purpose. The 26 community colleges for which independent auditors did not express opinions regarding compliance with the Act held \$661 million in investments as of August 31, 2001.

While independent auditors provide assurances regarding whether the community colleges' financial statements are free of material misstatement, this is different from providing assurances regarding compliance with the Act. Failure to comply with the requirements of the Act would not necessarily have a material impact on the financial statements.

Texas Government Code, Chapter 2256, (in which the Act is codified) requires institutions to submit investment information to the State Auditor's Office in a manner it prescribes (see textbox). Beginning with the next biennial reporting cycle (January 1, 2004), the State Auditor's Office intends to require that community college independent auditors provide assurances regarding the community colleges' compliance with the Act.

**Texas Government Code, Section
2256.005(n)**

Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section 321.020. Not later than January 1 of each even-numbered year, a state agency shall report the results of the most recent audit performed under this subsection to the state auditor. A state agency also shall report to the state auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

Chapter 1.2

Institutions' Quarterly Investment Reporting Requirements Should Be Simplified

Both the format and distribution method for institutions' quarterly investment reporting can be simplified. Currently, institutions are required to submit custom-format reports to the State Auditor's Office, the Comptroller of Public Accounts, the Governor's Office, and the Legislative Budget Board by mail each quarter. Beginning in fiscal year 2003, the State Auditor's Office will ask institutions to prepare investment reports using their own formats (which they currently use to communicate investment information to their boards). In addition, rather than require the institutions to submit this information by mail, the State Auditor's Office will ask each institution to publish its quarterly information on the institution's Web site.

Texas Government Code, Chapter 2256, requires institutions that invest in more than certain specified short-term cash management instruments to produce quarterly reports that are formally reviewed at least annually by an independent auditor (see text box). The results of those reviews must be reported to the institution's board. The State Auditor's Office proposes that institutions post on their Web sites the

results of the independent auditors' reviews. Under the Act, an internal auditor, in lieu of an independent auditor, may perform the annual review of quarterly reports.

Changing quarterly reporting requirements in this manner will reduce institutions' distribution and filing burdens and enhance the availability of investment information. Institutions that do not maintain a Web site may continue to submit hard copy reports to the State Auditor's Office, the Comptroller of Public Accounts, the Governor's Office, and the Legislative Budget Board.

**Texas Government Code, Section
2256.023(a)**

Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.

**Texas Government Code, Section
2256.023(d)**

If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

Chapter 1.3

Institutions' Annual Investment Reporting Requirements Should be Standardized

Institutions should also submit standard annual investment reports to the State Auditor's Office, the Comptroller of Public Accounts, the Governor's Office, and the Legislative Budget Board. Having a standardized annual investment report format will enable the State Auditor's Office to compile more precise higher education investment information and provide the Legislature and other interested parties with more useful information.

In addition to submitting their standard annual investment reports, institutions should also disclose the following investment information on their Web sites:

- Whether the institution employs outside investment advisors or managers. If so, the institution should disclose on its Web site who the outside investment advisors or managers are (including the individual's or firm's name and address) and whether the advisors or managers have the authority (discretion) to make investment decisions without obtaining prior approval.
- Whether the institution uses soft dollar arrangements (a means of paying for services through brokerage commission revenue, rather than through direct payments). If so, the institution should post on its Web site guidelines governing soft dollar arrangements.
- Whether the institution is associated with an independent endowment or foundation. If so, the institution should disclose on its Web site contact information (including name and address) for the individual(s) who manage the independent endowment or foundation. The institution also should post the market value of the independent foundation's investments (if available).

Institutions that do not have Web sites may continue to submit hard copies of their annual investment reports and the additional information specified above by mail to the State Auditor's Office and the Legislative Budget Board.

Chapter 1.4

Institutions Should Post Up-To-Date Investment Policies on Their Web Sites

Texas Government Code, Section 2256.005(e), and Rider 5, page III-231, General Appropriations Act, 77th Legislature, require institutions to reaffirm and submit copies of their investment policies to the Legislative Budget Board and the State Auditor's Office by December 31 of each year. Instead of this, we recommend that each institution post its investment policy on its Web site. When boards reaffirm or approve any changes to these policies, institutions should be required to update the investment policies posted on their Web sites within 30 days of the approval of these changes. This would enhance the availability of information and ensure that the information is current. When changes are made to an investment policy, notices should be sent to the State Auditor's Office and the Legislative Budget Board.

Chapter 2

Specific Investment Reporting Requirements

Chapters 2.1 through 2.4 outline the specific investment reporting requirements the State Auditor's Office prescribes.

Chapter 2.1

Community College District Investment Compliance Audit Reporting Requirements

Texas Government Code, Chapter 2256, requires institutions to obtain compliance audits at least once every two years and report the results to the State Auditor's Office by January 1 of each even-numbered year (see textbox). To assist in those audits, the State Auditor's Office makes a full compliance audit program available on its Web site at www.sao.state.tx.us.

If a community college employs its independent auditor to meet this requirement, the State Auditor's Office requires that the community college and its independent auditor indicate compliance with the Act using **either** of the following methods:

Texas Government Code, Section 2256.005(n)

Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section 321.020. Not later than January 1 of each even-numbered year, a state agency shall report the results of the most recent audit performed under this subsection to the state auditor. A state agency also shall report to the state auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

- Place the following statement in a separate and distinct paragraph within the *Report on Compliance and on Internal Controls*:

Public Funds Investment Act

We have performed tests designed to verify [the entity's] compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, [year], no instances of noncompliance were found.

[Note: No allowances are to be made for materiality.]

- Write a separate letter to the State Auditor's Office stating:

We have performed tests designed to verify [the entity's] compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, [year], no instances of noncompliance were found.

[Note: No allowances are to be made for materiality.]

Instances of noncompliance with the Act must be reported to the State Auditor's Office by detailing any instances of noncompliance using **either** of the following methods:

- Place the following statement in a separate and distinct paragraph within the *Report on Compliance and on Internal Controls*:

Public Funds Investment Act

We have performed a compliance audit of [the entity's] adherence to the requirements of the Public Funds Investment Act. During the year ended August 31, [year], [the entity] was not in compliance in all respects with the requirements of the Public Funds Investment Act. Items of noncompliance were as follows: [instance]; [instance]; and [instance]. These items of noncompliance were brought to the attention of [the entity's governing board] in a letter dated [month] [day], [year].

[Note: Subsequent actions by the entity to resolve the instances of noncompliance may be noted.]

- Write a separate letter to the State Auditor's Office stating:

We have performed a compliance audit of [the entity's] adherence to the requirements of the Public Funds Investment Act. During the year ended August 31, [year], [the entity] was not in compliance in all respects with the requirements of the Public Funds Investment Act. Items of noncompliance were as follows: [instance]; [instance]; and [instance]. These items of noncompliance were brought to the attention of [the entity's governing board] in a letter dated [month] [day], [year].

[Note: Subsequent actions by the entity to resolve the instances of noncompliance may be noted.]

If a community college asks its internal auditor to perform the compliance audit, the community college must indicate compliance with the Act by submitting to the State Auditor's Office a copy of the internal auditor's report. The internal audit report shall detail all instances of noncompliance and specify the date on which the report was presented to the institution's governing board. Management must also place the following statement in the notes to its annual financial statements:

[The entity's] internal auditor, in a report dated [month] [day], [year], has performed a compliance audit of adherence to the requirements of the Public Funds Investment Act. No instances of noncompliance were found [or, any instances of noncompliance should be summarized in the note].

Chapter 2.2

Quarterly Investment Reporting Requirements

Institutions must publish on their Web sites the entire quarterly investment report required by Texas Government Code, Section 2256.023 (see text box on next page). Institutions can use the same format they use to report quarterly investment information to their boards, provided that this format meets the requirements of Texas Government Code, Section 2256.023. The report should be:

- Easy to locate on the institution's Web site and published on an indexed page titled "Investment Disclosure."
- Published fewer than 90 days after the end of the quarter or 7 days after the investment report is presented to the institution's board, whichever occurs first.
- Maintained on the Web site for at least two years.

Institutions that do not have Web sites may continue to submit hard copies of their quarterly investment reports by mail to the State Auditor's Office and the Legislative Budget Board.

The first page of each Web-published report should include the name, phone number, e-mail address (if available), and mailing address of an individual designated to handle inquiries regarding the institution's investments.

Institutions not subject to the Public Funds Investment Act must publish a reasonably equivalent quarterly report taken from the investment information they customarily report to their boards.

Texas Government Code, Section 2256.023

- (a) Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.
- (b) The report must:
 - (1) describe in detail the investment position of the entity on the date of the report;
 - (2) be prepared jointly by all investment officers of the entity;
 - (3) be signed by each investment officer of the entity;
 - (4) contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:
 - (A) beginning market value for the reporting period;
 - (B) additions and changes to the market value during the period;
 - (C) ending market value for the period; and
 - (D) fully accrued interest for the reporting period;
 - (5) state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
 - (6) state the maturity date of each separately invested asset that has a maturity date;
 - (7) state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and
 - (8) state the compliance of the investment portfolio of the state agency or local government as it relates to:
 - (A) the investment strategy expressed in the agency's or local government's investment policy; and
 - (B) relevant provisions of this chapter.
- (c) The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.
- (d) If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the *governing body by that auditor*.

Chapter 2.3

Annual Investment Reporting Requirements

Every year by November 20 each state university and by January 1 each community college must publish on its Web site and submit to the State Auditor's Office, the Comptroller of Public Accounts, the Governor's Office, and the Legislative Budget Board an annual report of its investment assets as of August 31 of the previous year. The required format for the annual report is displayed in Figure 1 on page 9 and is available electronically on the State Auditor's Office Web site at www.sao.state.tx.us.

A community college's investment report should cover all portfolios and entities required to be included in the institution's annual financial report in accordance with Statement No. 39 of the Governmental Accounting Standards Board (see textbox on next page for additional details regarding Statement No. 39). A state university's report should cover all portfolios and entities required to be included in the institution's annual financial report in accordance with the pronouncements of the Governmental Accounting Standards Board as interpreted by the Comptroller of Public Accounts. The total market value shown on the standardized annual report of investments should be reconciled to the market value of investments shown in the institution's annual financial statement.

Also, following three questions must be answered annually on the institution's Web site and submitted to the State Auditor's Office and the Legislative Budget Board:

New Rules for Public Entities with Affiliated Fundraising Foundations and Similar Organizations

The Governmental Accounting Standards Board (GASB) has issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement clarifies existing accounting guidance and provides greater consistency in accounting for organizations that are closely related to a primary government. The statement provides criteria for determining whether certain organizations, such as not-for-profit foundations related to public universities, should be reported as component units based on the nature and significance of their relationship.

Statement No. 39, which is effective for periods beginning after June 15, 2003, amends GASB Statement No. 14. Generally, a legally separate, tax-exempt, fundraising organization whose primary purpose is to raise or hold significant resources for the benefit of a specific governmental unit should be included as a component unit of that governmental unit's financial reporting entity. Previously, many governments did not report in their financial statements the financial activities of those foundations.

- Does the institution employ outside investment advisors or managers and, if so, who are they (provide individual or firm name and address)? Do the outside investment advisors or managers have the authority to make investment decisions without obtaining prior approval?
- Does the institution use soft dollar arrangements (a means of paying for services through brokerage commission revenue, rather than through direct payments)? (If the answer to this question is yes, the institution must provide a copy of the guidelines that govern the use of soft dollar arrangements.)
- Is the institution associated with an independent endowment or foundation? (If the answer to this question is yes, the institution must provide contact information [name and address] for the individual[s] who manage the independent endowment or foundation. The institution must also provide, if available, the market value of the endowment's or foundation's investments.)

When institutions publish the answers to these questions on their Web sites, this information should be easy to locate and published on an indexed page titled "Investment Disclosure." Institutions that do not have a Web site may submit hard copies of the annual investment report and the answers to these questions by mail to the State Auditor's Office and the Legislative Budget Board.

Figure 1: Required Statement of Investment Assets

Name of Institution		
Summary of Investments		
Investment Type	August 31, 2XXX Book Value	August 31, 2XXX Market Value
Equity Securities		
U.S. Common Stock		
Equity Mutual Funds		
Other Equity Securities (list)		
Total Equity Securities		
Other Investments		
Real Estate		
Private Equity		
Annuities		
Collective Endowment Funds		
Commodities		
Collectibles		
Other (list)		
Total Other Investments		
Name of Institution		
Summary of Investments		
Investment Type	August 31, 2XXX Book Value	August 31, 2XXX Market Value
Debt Investments > 1 year		
U.S. Government		
U.S. Government Agency		
Mortgage Pass-Throughs		
CMOs:		
Interest Only Strips		
Principal Only Strips		
Inverse Floaters		
Stated Maturities longer than 10 years		
PFIA Compliant CMOs		
Other Asset-Backed Bonds		
Foreign Issued Obligations		
Municipal Obligations		

Name of Institution		
Summary of Investments		
Investment Type	August 31, 2XXX Book Value	August 31, 2XXX Market Value
Corporate Obligations:		
Highly Rated (AAA/AA)		
Investment Grade (A/BBB)		
NR/High Yield (<BBB)		
GICs		
Bond Mutual Funds		
Other (list)		
Total Debt Investments >1 year		
Short Term Investments		
U.S. Government		
U.S. Government Agency		
CDs/BAs		
A1/P1 Commercial Paper		
Repurchase Agreements		
TexPool		
Other Money Market Funds and Pools		
Bank Deposits		
Cash Held at State Treasury		
Other (list)		
Total Short Term Investments		
TOTAL INVESTMENTS		

Explanations of Asset Classes

A1/P1 Commercial Paper	Commercial paper rated A1, P1, or F1 (or higher). Lower rated commercial paper should be listed under "other" short-term investments.
Annuities	A type of investment sold by insurance companies. Includes fixed and variable annuities.
Bank Deposits	Money held in bank, savings bank, or credit union accounts.
Bond Mutual Funds	Funds that invest in debt securities with a variable net asset value per share.
CDs/BAs	Certificates of deposit with a maturity under one year and banker's acceptances.
CMO (Collateralized Mortgage Obligations)	Prohibited CMOs listed as noncompliant. (Institutions may hold noncompliant CMOs that were purchased prior to September 1, 1995.)
Cash Held at State Treasury	All balances held in the State Treasury or the Texas Treasury Safekeeping Trust Company.
Collectibles	Items such as art, stamps, coins, historic documents, and memorabilia.

Collective Endowment Funds	Long-term endowment funds managed by a third party that combines investments from multiple investors (the Common Fund and the Permanent Higher Education Fund are examples).
Commodities	Includes things such as oil and gas, timber land, and precious metals.
Corporate Obligations	All non-governmental debt issues classified by rating. For issues with split ratings, lower ratings are reported. Equivalent ratings from other rating agencies such as Fitch may be used.
Equity Mutual Funds	Mutual funds that invest in stocks. Includes balanced funds (which include a mix of stocks and bonds).
Equity Securities	Stocks.
Fair Market Value	The value based on Governmental Accounting Standards Board Statement 31 (GASB 31).
Foreign Issued Obligations	Securities that are issued outside of the U.S. by non-U.S. issuers (in U.S. dollars or foreign currency). Includes U.S. issued securities that are in foreign currencies.
GICs	Guaranteed investment contracts issued by insurance companies.
Highly Rated Corporate Issues	Issues rated AAA or AA by Standard & Poor's or Aaa or Aa by Moody's.
Investment Grade Corporate Issues	Issues rated A or BBB by Standard & Poor's or A or Baa by Moody's.
Mortgage Pass-Throughs	Residential mortgage securities pooled together and marketed by governmental agency issuers such as GNMA, FNMA, FHLMC. (Does not include private issues, which should be included with CMOs, and pooled commercial real estate mortgages, which should be included with other asset-backed bonds.)
Municipal Obligations	State, county, municipality, or public authority issues.
NR/High Yield	Non-Rated (NR rated) issues and issues rated BB or lower by Standard & Poor's and Ba or lower by Moody's.
Other Asset-Backed Bonds	Securities backed by pools of assets such as credit card loans, commercial real estate loans, and auto loans.
Other Equity Securities	Preferred stocks, foreign stocks, and non-publicly traded stocks.
Other Money Market Funds and Pools	Money funds and pools with a constant \$1.00 per share net asset value objective.
Private Equity	Includes venture capital, hedge funds, leveraged buyout, mezzanine, and strategically traded securities held directly or through investment vehicles such as limited partnerships.
Real Estate	Includes real estate held for investment directly or through investment vehicles such as limited partnerships.
Repurchase Agreements	Short-term investments secured by marketable securities.
Short-Term Investments	Includes all debt investments with a maturity (as of purchase date) of less than one year and all cash and bank deposits.
TexPool Investments	Investments in TexPool. Includes other Texas pool investments with other money market funds.
U.S. Common Stocks	Includes only publicly traded stocks.
U.S. Government Agency Securities	Securities issued by U.S. Government-sponsored agencies or corporations such as FNMA, FHLMC, or FHLB that do not have full faith and credit guarantees from the U.S.
U.S. Government	Includes Treasuries and any other investment with an affirmative full faith and credit guarantee of the U.S. Government.

Investment Policy Reporting Requirements

Each institution must publish a copy of its investment policy on its Web site on an indexed page titled “Investment Disclosure.” Any reaffirmations or changes to this policy authorized by the institution’s board must be updated on the Web site within 30 days. The date of the board’s last annual reaffirmation of the investment policy (required by Texas Government Code, Section 2256.005[e], see textbox) must be noted. Institutions that do not have a Web site may submit paper copies of their investment policies by mail to the State Auditor’s Office and the Legislative Budget Board. Each time an investment policy is changed, notice must be sent to the State Auditor’s Office and the Legislative Budget Board within 30 days.

**Texas Government Code Section
2256.005(e)**

The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

Objectives, Scope, Methodology, and Prior Opportunity for Higher Education Institution Comments

The objectives of this project were to:

- Review existing investment-related reporting requirements for institutions of higher education.
- Identify and implement improvements needed to provide more useful information, reduce unneeded compliance burdens, and enhance the public disclosure of information.

The scope of this review included all state institutions of higher education that are subject to:

- Rider 5, page III-231, the General Appropriations Act (77th Legislature)
- The Public Funds Investment Act (codified in Texas Government Code, Chapter 2256)

Our methodology consisted of collecting and analyzing the relevant statutes, analyzing the present manner and method for institutions’ investment reporting, and analyzing the present uses of the investment reports that institutions submit.

A draft of this report was provided to the chief executive officers and chief financial officers of all state institutions of higher education for comment. Responses were received from four universities and four community colleges. All responses were

generally supportive of the State Auditor's Office's proposed changes. Some concern was expressed that publishing portfolio information along with investment officer contact information would increase the volume of unsolicited marketing calls by brokers seeking business. Should this prove to be the case, the State Auditor's Office may re-evaluate this reporting requirement.

An additional concern was expressed by smaller institutions that publishing information on a quarterly basis might prove to be administratively burdensome. A suggestion was made that institutions with small investment portfolios be exempted from the quarterly reporting requirements. While sympathetic to this proposal, Rider 5 does not give the State Auditor's Office the authority to waive quarterly reporting requirements.