



A Report on

Agencies', Higher Education Institutions', and Community Colleges' Compliance with Public Funds Investment Act and Rider 5, General Appropriations Act, Reporting Requirements

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

Most agencies, higher education institutions, and community colleges subject to the Public Funds Investment Act (Texas Government Code, Chapter 2256) provided compliance audit reports indicating that they fully or substantially complied with the Act for the biennial period ending on January 1, 2024. One higher education institution provided a report indicating minimal compliance, and one community college did not provide a compliance audit report.

Additionally, higher education institutions, including universities, university systems, and community colleges, are subject to the reporting requirements established in Rider 5, pages III-284 through III-285, General Appropriations Act (88th Legislature), and prescribed by the State Auditor's Office. Most of those institutions complied with Rider 5, as Figure 1 on the next page indicates.

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This project was conducted in accordance with Texas Government Code, Section 2256.005, and Rider 5, pages III-284 through III-285, General Appropriations Act (88th Legislature).

NOT RATED

ENTITIES' COMPLIANCE WITH ACT AND RIDER 5 REQUIREMENTS

For the compliance reporting period ended January 1, 2024, most entities subject to the Act submitted the required compliance audit reports. Most higher education institutions complied with Rider 5 reporting requirements.

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For more information about this project, contact Audit Manager Jennifer Brantley or State Auditor Lisa Collier at 512-936-9500.

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Figure 1

Summary of Compliance Status

Entity	Compliance Status ^a					
	<i>The Act</i> ^b				<i>Rider 5</i> ^c	
	Fully Compliant	Substantially Compliant	Minimally Compliant	Non-compliant	Fully Compliant	Substantially Compliant
Agencies Subject to the Act but not Rider 5	10 (of 12)	2 (of 12)	0 (of 12)	0 (of 12)	N/A	N/A
Higher Education Institutions Subject to the Act and Rider 5	0 (of 2)	1 (of 2)	1 (of 2)	0 (of 2)	1 (of 2)	1 (of 2)
Community Colleges Subject to the Act and Rider 5	48 (of 50)	1 (of 50)	0 (of 50)	1 (of 50)	50 (of 50)	0 (of 50)
Higher Education Institutions Subject to Rider 5 but not the Act	N/A				7 (of 7)	0 (of 7)

^a Compliance was determined using the following categories:

Act Compliance Categories

Fully Compliant: No findings were reported by internal or external auditors.

Minimally Compliant: Some findings were reported that were significant to policies, contracting, training, reporting, reviewing, or auditing.

Substantially Compliant: Few findings were reported that may include a significant finding related 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.

Rider 5 Compliance Categories

Fully Compliant: Investment disclosures met all reporting requirements.

Minimally Compliant: Investment disclosures had some significant omissions.

Substantially Compliant: Investment disclosures met most reporting requirements, with minor omissions.

Noncompliant: Investment disclosures omitted all or most of the required disclosures or reports.

^b Most of the entities tested were either fully or substantially compliant with the Act; however, one entity was minimally compliant, and one entity was noncompliant.

^c All but one of the entities tested were fully compliant with Rider 5.

Background Information

Public Funds Investment Act (Act)

The Legislature enacted the Public Funds Investment Act (Act) in 1995 to improve the transparency and management of investments by state agencies, higher education institutions, community colleges, and local governments. The Act (Texas Government Code, Chapter 2256) requires certain state agencies, higher education institutions, and community colleges to implement controls in the form of investment policies, contracting, training, reporting, and reviewing. The Act contains multiple requirements for each of those areas, and the agencies' internal or external auditors must test compliance with those policies every two years and provide those audits to the State Auditor's Office by January 1 of every even-numbered year.

The State Auditor's Office reviews the biennial compliance reports and assigns ratings using defined compliance levels ([see Figure 1 on page 2 for definitions](#)).

Rider 5, The General Appropriations Act (88th Legislature)

Higher education institutions, including universities, university systems, and community colleges, are subject to the reporting requirements established in Rider 5, pages III-284 through III-285, General Appropriations Act (88th Legislature), and prescribed by the State Auditor's Office. Specifically, Rider 5 requirements include the following:

- Submitting an annual investment report, [prepared in a method prescribed by the State Auditor's Office](#), to the State Auditor's Office, the Office of the Comptroller of Public Accounts, the Office of the Governor, and the Legislative Budget Board.
- Publishing or disclosing the following information on the higher education institution's website:
 - The annual investment report described above.

- Quarterly investment reports.
- Current investment policies.
- The use of outside investment advisors or managers.
- The use of soft dollar agreements, directed brokerage or directed commission, commission recapture, or similar arrangements.¹
- Associations with independent endowments or foundations.

¹ 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 rebate a portion of the commission they receive on trades for the investor.



Chapter 1

Entities' Compliance with Act and Rider 5 Requirements

The Public Funds Investment Act (Act) requires certain state agencies and higher education institutions to report once every two years on the implementation of investment-related policies, contracting, training, reporting, reviewing, and auditing ([see Background Information](#) for more details).

Auditors reviewed compliance reports that were due by the statutory date of January 1, 2024. One entity (Coastal Bend College) did not submit a compliance report. Additionally, some entities using external auditors submitted reports that provided an opinion only on material noncompliance instead of identifying any instances of noncompliance, as required. Auditors followed up with institutions and obtained confirmation of all instances of noncompliance when applicable.

Some higher education institutions and community colleges were not in compliance with Rider 5, pages III-284 through III-285, General Appropriations Act (88th Legislature) higher education reporting requirements at the beginning of this project. However, the entities were able to provide the missing information or verify that the reporting requirements were met prior to completion of this report.

Agencies' Compliance with the Act

Of the 12 agencies subject to the Act, 10 submitted reports that indicated full compliance with the Act, and 2 submitted reports that indicated substantial compliance. The specific instances of noncompliance are noted in Appendix 2.

Figure 2 shows ratings for compliance by agencies subject to the Act and total market value of investments as of August 31, 2023.

Figure 2

Agencies' Compliance and Market Value of Investments

Act	Agency	Market Value of Investments as of August 31, 2023 ^a
✔	Board of Law Examiners	\$ 5,084,825
✔	Department of Criminal Justice	74,719,366
✔	Department of Housing and Community Affairs	2,640,316,697
✔	Department of Transportation	1,763,525,000
●	Real Estate Commission	32,720,971
✔	School for the Blind and Visually Impaired	1,257,876
✔	State Bar of Texas ^b	76,988,208
●	Texas Access to Justice Foundation	95,651,153
✔	State Affordable Housing Corporation	132,008,131
✔	Treasury Safekeeping Trust Company (TexPool and TexPool Prime)	42,185,791,342
✔	Trusted Programs within the Office of the Governor	1,701,698
✔	Water Development Board	5,604,214,878
Total		\$ 52,613,980,145
✔ Fully Compliant ● Substantially Compliant		

For definitions of compliance status, [see Figure 1 on page 2](#).

^a This table includes investment information only for agencies subject to the Act. The amounts in this table are based on information the agencies provided and are rounded to the nearest dollar. Auditors did not perform tests or other procedures to verify the accuracy of the reported amounts. These amounts include agencies' investments that are subject to the Act but exclude other agencies' investments in the Texas Treasury Safekeeping Trust Company (TexPool and TexPool Prime) to prevent counting those holdings twice.

^b Data is as of the agency's fiscal year end, May 31, 2023.

Sources: **Unaudited annual financial reports:** Department of Criminal Justice, Real Estate Commission, School for the Blind and Visually Impaired, Trusted Programs within the Office of the Governor, and Water Development Board. **Portfolio holdings report:** Texas Access to Justice Foundation. **Audited annual financial reports:** Board of Law Examiners, Department of Housing and Community Affairs, Department of Transportation, State Bar of Texas, Texas State Affordable Housing Corporation, and Texas Treasury Safekeeping Trust Company.

Higher Education Institutions' Compliance with the Act and Investment Reporting Requirements of Rider 5

Compliance with the Act

The Act defines state agencies to include higher education institutions with authority to invest public funds. However, higher education institutions that had total endowments of \$150 million in book value as of September 1, 2017, are exempt from the Act. Excluding community colleges, which are presented separately in this chapter, auditors determined that two higher education institutions were required to follow the Act and seven higher education institutions were exempt from the Act.

Both higher education institutions determined to be subject to the Act provided compliance audit reports for the biennial period ending on January 1, 2024. One institution provided a report that indicated it substantially complied with the Act, and one institution provided a report that indicated it minimally complied with the Act. Figure 3 on the next page shows ratings for compliance by higher education institutions subject to the Act. The specific instances of noncompliance with the Act are noted in Appendix 2.

Compliance with Rider 5

Rider 5 requires all higher education institutions to provide an annual report of investment transactions, in a manner prescribed by the State Auditor's Office.

For the higher education institutions determined by auditors to be subject to the Act, one higher education institution was determined to be fully compliant with Rider 5 requirements, and one higher education institution was determined to be substantially compliant. All seven of the higher education institutions determined by auditors to be exempt from the Act were fully compliant with Rider 5 requirements.

Figure 3 and Figure 4 on the next page show ratings for compliance by higher education institutions. Rider 5 compliance testing is for the fiscal year ended August 31, 2023, with investment balances also as of August 31, 2023.

Figure 3

Higher Education Institutions' Compliance (Subject to the Act) and Market Value of Investments

Act	Rider	University	Market Value of Investments as of August 31, 2023 ^a
		Texas Southern University	\$ 94,593,978
		Texas State Technical College System	340,797,390
Total			\$ 435,391,368

Fully Compliant
 Substantially Compliant
 Minimally Compliant

For definitions of compliance status, [see Figure 1 on page 2.](#)

^a This table includes investment information only for higher education entities subject to the Act and does not include cash. The amounts in this table are based on self-reported information and are rounded to the nearest dollar. Auditors did not perform tests or other procedures to verify the accuracy of the reported amounts. These amounts include higher education institutions' investments that are subject to the Act but exclude higher education institutions' investments in the Texas Treasury Safekeeping Trust Company (TexPool and TexPool Prime) to prevent counting those holdings twice.

Sources: Annual investment reports as of August 31, 2023, provided by the university and the system.

Figure 4

Higher Education Institutions' Compliance (Exempt from the Act) and Market Value of Investments

Rider	University or System	Market Value of Investments as of August 31, 2023 ^a
	Texas A&M University System	\$ 8,190,246,098
	Texas State University System	936,788,767
	Texas Tech University System	4,054,837,446
	Texas Woman's University	455,401,094
	The University of Houston System	2,275,930,118
	The University of North Texas System	936,138,892
	The University of Texas System	85,673,848,578
Total		\$102,523,190,993

Fully Compliant

For definitions of compliance status, [see Figure 1 on page 2.](#)

Rider	University or System	Market Value of Investments as of August 31, 2023 ^a
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^a This table includes investment information only for university and university systems exempt from the Act in Texas Government Code, Section 2256.004. The amounts in this table are based on self-reported information and are rounded to the nearest dollar. Auditors did not perform tests or other procedures to verify the accuracy of the reported amounts. The amounts do not include cash or TexPool and TexPool Prime. Investments in the Texas Treasury Safekeeping Trust Company (TexPool and TexPool Prime) are not included to prevent counting those holdings twice.

Sources: Annual investment reports as of August 31, 2023, provided by the university and the university systems.

Community Colleges’ Compliance with the Act and Investment Reporting Requirements of Rider 5

Of the 50 community colleges² tested, 49 provided compliance audit reports in accordance with the Act for the biennial period ending January 1, 2024. Of these, 48 reports indicated full compliance with the Act, and 1 indicated substantial compliance. The remaining community college was noncompliant because it did not provide a report. The specific instances of noncompliance are listed in Appendix 2.

In reviewing the community colleges’ websites, auditors determined that all 50 fully complied with the reporting requirements of Rider 5.

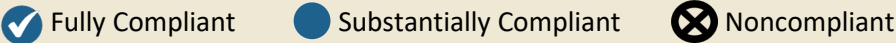
Figure 5 on the next page summarizes community colleges’ compliance with the Act and the reporting requirements of Rider 5, as well as market value of investments as of August 31, 2023.

² For the purposes of this report, if a community college is within a community college district (with multiple community colleges), the phrase “community college” refers to the community college district.

Figure 5

Community Colleges' Compliance and Market Value of Investments

Act	Rider	Community College	Market Value of Investments as of August 31, 2023 ^a
✓	✓	Alamo Colleges District	\$ 239,237,554
✓	✓	Alvin Community College	28,443,771
✓	✓	Amarillo College	46,752,093
✓	✓	Angelina College	24,183,257
✓	✓	Austin Community College	232,494,928
✓	✓	Blinn College	133,993,466
✓	✓	Brazosport College	18,473,962
✓	✓	Central Texas College	104,772,023
✓	✓	Cisco College	7,433,330
✓	✓	Clarendon College	7,173,640
⊗	✓	Coastal Bend College	20,405,962
✓	✓	College of the Mainland	6,072,588
✓	✓	Collin County Community College	259,322,391
✓	✓	Dallas College	784,522,636
✓	✓	Del Mar College	98,095,739
✓	✓	El Paso Community College	117,766,557
✓	✓	Frank Phillips College (Borger Junior College District)	1,559,156
✓	✓	Galveston College	34,028,591
✓	✓	Grayson County College	54,003,319
✓	✓	Hill College	23,695,232
✓	✓	Houston Community College	295,141,365
✓	✓	Howard College	31,849,948
✓	✓	Kilgore College	33,810,686
✓	✓	Laredo College	92,275,567
✓	✓	Lee College	45,357,366
●	✓	Lone Star College System	420,837,898

Act	Rider	Community College	Market Value of Investments as of August 31, 2023 ^a
✓	✓	McLennan Community College	35,011,764
✓	✓	Midland College	61,357,906
✓	✓	Navarro College	25,125,358
✓	✓	North Central Texas College	11,675,573
✓	✓	Northeast Texas Community College	6,393,459
✓	✓	Odessa College	75,798,283
✓	✓	Panola College	50,494,649
✓	✓	Paris Junior College	18,261,577
✓	✓	Ranger College	5,045,732
✓	✓	San Jacinto College	141,595,642
✓	✓	South Plains College	28,425,309
✓	✓	South Texas College	390,535,483
✓	✓	Southwest Texas Junior College	20,792,917
✓	✓	Tarrant County College	1,063,881,731
✓	✓	Temple College	155,791,557
✓	✓	Texarkana College	32,354,240
✓	✓	Texas Southmost College	90,212,365
✓	✓	Trinity Valley Community College	36,885,944
✓	✓	Tyler Junior College	16,470,362
✓	✓	Vernon College	11,578,786
✓	✓	Victoria College	4,363,303
✓	✓	Weatherford College	96,871,663
✓	✓	Western Texas College	32,700,043
✓	✓	Wharton County Junior College	37,011,307
		Total	\$ 5,610,337,978
			
<p>For definitions of compliance status, see Figure 1 on page 2.</p>			

Act	Rider	Community College	Market Value of Investments as of August 31, 2023 ^a
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^a This table includes investment information for community colleges subject to the Act and does not include cash. The amounts in this table are based on self-reported information and are rounded to the nearest dollar. Auditors did not perform tests or other procedures to verify the accuracy of the reported amounts. These amounts include community colleges' investments that are subject to the Act but exclude community colleges' investments in the Texas Treasury Safekeeping Trust Company (TexPool and TexPool Prime) to prevent counting those holdings twice.

Sources: Annual investment reports as of August 31, 2023, provided by the community colleges.



Appendix I

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, 2024.
- Determine whether higher education institutions complied with Rider 5, pages III-284 through III-285, General Appropriations Act (88th Legislature) and reporting requirements as prescribed by the State Auditor’s Office on its website.

Scope

The scope of this project included compliance audit reports required to be submitted by January 1, 2024, and Rider 5 investment disclosures for the fiscal year ended August 31, 2023. Auditors reviewed the reports between March 2024 and June 2024.

The following members of the State Auditor’s staff conducted the project:



- Alana Montoro (Project Manager)
- Jennifer Fries, MS
- Sarah “Ore” Ogunmayin
- Dana Musgrave, MBA, CFE (Quality Control Reviewer)
- Jennifer Brantley, MS, CPA (Audit Manager)

Methodology

The project methodology included (1) collecting and evaluating evidence regarding compliance with the Act (Texas Government Code, Chapter 2256) included in entities' most recent compliance audit reports, (2) reviewing higher education institutions' and community colleges' websites and the documents that they submitted to the State Auditor's Office for the required investment disclosures, and (3) compiling entities' investment balances individually and by type of entity. In addition, auditors communicated with agencies, higher education institutions, and community colleges in an effort to clarify the relevant requirements. Auditors did not perform any information technology work. It is important to note that the entities provided the information reviewed in this report and that the State Auditor's Office did not independently verify that information.

This project was not an audit, and 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.

Appendix 2

Instances of Noncompliance with the Act

Figure 6 provides information on the instances of noncompliance reported by the internal and external auditors of agencies, higher education institutions, and community colleges that are subject to the Public Funds Investment Act (Act).

Figure 6

Entities That Were Not Fully Compliant With the Act (From Compliance Audit Reports for the Reporting Period Ending January 1, 2024)

Entity	Area of Noncompliance	Internal or External Auditor Findings ^a
Agencies That Were Substantially Compliant With the Act		
Real Estate Commission	Reporting	[Internal Audit found that] <i>the required investment officer training compliance report was not submitted to the Commissioners and TALCB Board [Texas Appraiser and Licensing Certification Board] within 180 days of the last regular legislature date.</i>
Texas Access to Justice Foundation	Training	[Internal Audit found that] <i>one investment officer did not attend training within six months of assuming duties.</i>
	Reporting	<i>A report on section 2256.007 subchapter (d) was not delivered to the Board of Directors within 180 days of the last day of the 2023 regular session of the legislature.</i>
	Reporting	<i>The December 2022 and June 2023 quarterly investment reports were not submitted to the Board of Directors.</i>
	Compliance	<i>Beginning in December 2021, the Foundation began holding government bonds and treasury notes. A formal review by an independent auditor of the quarterly investment reports from December 2021 to December 2022 was not done.</i>

Entity	Area of Noncompliance	Internal or External Auditor Findings ^a
Higher Education Institutions That Were Substantially Compliant With the Act		
Texas State Technical College	Reporting	[Internal Audit identified] <i>three minor exceptions related to incorrect maturity dates and an interest rate reported on the May 31, 2023, Quarterly Investments Report. Additionally, [they] noted one exception on the May 31, 2023, Pledged Collateral Report, which overstated collateral by \$11,192. With stated collateral adjusted for the error, the collateral amount was still more than sufficient.</i>
Higher Education Institutions That Were Minimally Compliant With the Act		
Texas Southern University	Reporting	[Internal Audit found that] <i>Management did not fully complete the quarterly investment summary reports for November 2022 and February 2023.</i>
	Reporting	<i>The quarterly summary investment reports do not include fully accrued interest and maturity dates of investments.</i>
	Reporting	<i>Monthly reconciliations were not performed in a timely manner to adjust the general ledger and reflect activity in the endowment funds held at US Bank. As a result:</i> <ul style="list-style-type: none"> • <i>The non-endowment balance in the general ledger does not agree with the amount in the February 2023 quarterly investment summary report.</i> • <i>The endowment balance in the general ledger does not agree with the amount in the February 2023 ACG report.</i>
Community Colleges That Were Substantially Compliant With the Act		
Lone Star College System	Training	[Internal Audit] <i>noted one board member completed their training nine months after they were sworn in, noting completion was outside the required six-month period.</i>
^a The findings presented are direct excerpts from the entities' audit reports.		

Source: State Auditor's Office review of the compliance audit reports issued by the entities' auditors.

Appendix 3

Related State Auditor's Office Reports

Figure 7

Report Number	Report Name	Release Date
22-034	<i>A Report on Agencies', Higher Education Institutions', and Community Colleges' Compliance with Public Funds Investment Act and Rider 5, General Appropriations Act, Reporting Requirements</i>	June 2022
21-023	<i>A Report on Agencies', Higher Education Institutions', and Community Colleges' Compliance with Public Funds Investment Act and Rider 5, General Appropriations Act, Reporting Requirements</i>	June 2021
18-029	<i>A Report on Agencies', Higher Education Institutions', and Community Colleges' Compliance with Public Investment Reporting Requirements</i>	May 2018



Copies of this report have been distributed to the following:

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The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dade Phelan, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Entities Listed in Report

This report was distributed to the boards, chancellors, presidents, and executive directors of the agencies, higher education institutions, and community colleges listed in this report.



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