



OFFICE OF
Internal Audit

May 9, 2018

Carine M. Feyten, Ph.D., Chancellor and President,
Members of the Board of Regents:

We have completed an audit of Investments. The objective of the audit was to evaluate the institution's compliance with the Public Funds Investment Act (PFIA) - Government Code, Section 2256, assess management controls over investments, and assess adherence to TWU Investment Policies.

The audit noted that overall, TWU is in compliance with the Public Funds Investment Act. Management controls over investments are effective and there is adherence to TWU Investment Policies; however, the attached report details five recommendations that will further enhance compliance with the applicable requirements.

Please let me know if you have any questions or comments regarding this audit.

We appreciate the courtesies and considerations extended to us during our engagement.



Ali Subhani, CIA, CISA, GSNA
Director of Internal Audit

Report Distribution:

Texas Woman's University (TWU):

B.J. Crain, Interim Vice President for Finance and Administration
Carolyn Whitlock, Associate Vice President - Controller & Treasury
Destinee Waiters, General Counsel

State of Texas Agencies

Governor's Office of Budget and Planning
Legislative Budget Board
State Auditor's Office
Sunset Advisory Commission

Members of the TWU Board of Regents:

Regent Nolan E. Perez, M.D.	Regent Janelle Shepard
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EXECUTIVE SUMMARY

AUDIT OBJECTIVE AND SCOPE

The objective of the audit was to evaluate the institution's compliance with the Public Funds Investment Act (PFIA) - Government Code, Section 2256, assess management controls over investments, and assess adherence to TWU Investment Policies. The scope of our audit was fiscal years 2016 and 2017. We concluded our fieldwork on April 26, 2018.

AUDIT RECOMMENDATIONS

Recommendation	Risk Level	Estimated Implementation Date
1. Ensure Investment Training is Completed & Legislative Changes to the PFIA are Reported to the Board	Medium	October 2018
2. Enhance the Records Retention Schedule to Facilitate Retention of Investment Documentation	Medium	October 2018
3. Ensure that Reporting Methodology is Documented	Medium	October 2018
4. Ensure the Audit of Investments is Completed and Filed Timely	Low	October 2018
5. Ensure Annual Investment Reports & Investment Policies are Properly Filed	Low	October 2018

DESIGNATED MANAGEMENT

Responsible Vice President

BJ Crain
Interim Vice President
Finance and Administration

Responsible Party

Carolyn Whitlock
Associate Vice President
Controller and Treasury

CONCLUSION

Overall, TWU is in compliance with the Public Funds Investment Act. Management controls over investments are effective and there is adherence to TWU Investment Policies.

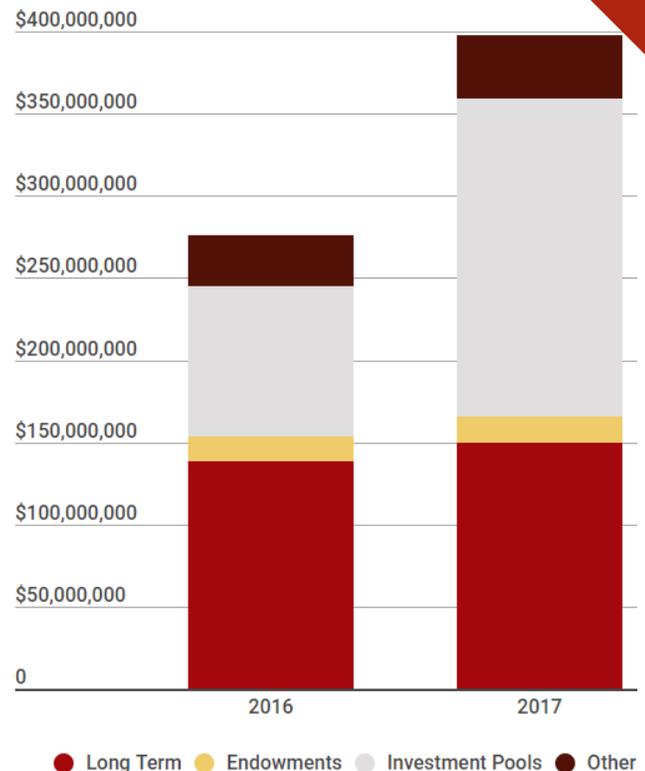
BACKGROUND

The Public Funds Investment Act (PFIA) recorded on the [Government Code, Section 2256](#), provides guidance to state agencies related to investment policies, strategies, standards of care, board and investment officer(s) responsibilities, authorized investments, internal reporting requirements and other miscellaneous provisions.

The General Appropriations Act (84th Legislature), Article III, [Rider 5 - Investment Reports](#) and the State Auditor's Office further detailed investment-related provisions that higher education institutions are responsible for. The audit of investments is required at least once every two years per section 2256.005 (n) of the PFIA. Among other things, TWU is responsible for:

- Adopting and annually reviewing investment policies and strategies that reflect standards of care for investments
- Designating investment officers and obtaining conflict of interest disclosures
- Obtaining certification from external businesses engaging in investment transactions with TWU by acknowledging the receipt of the University's investment policy
- Performing and filing a compliance audit of investments each biennium
- Training board members and investment officers on PFIA responsibilities and requirements
- Preparing and presenting a report to the governing body on legislative changes to the PFIA
- Properly preparing, filing and posting quarterly and annual investments reports

INVESTMENTS PER THE ANNUAL INVESTMENT REPORT



*Increase in 2017 due to construction activity on campus

STRENGTHS NOTED

- ● ● ● ● Investment policies are in place and contain strategies, standards of care and other required provisions
- ● ● ● ● Investment reports are prepared in the prescribed format and with the required content
- ● ● ● ● Investment pools and other investments in the portfolio comply with PFIA requirements
- ● ● ● ● Annual tracking reports and other disclosures required by the SAO are completed and available online
- ● ● ● ● Investment reports are reviewed by the Office of Internal Audit

AUDIT OBJECTIVE

The objective of the audit was to evaluate the institution's compliance with the Public Funds Investment Act (PFIA) -Government Code, Section 2256, assess management controls over investments, and assess adherence to TWU Investment Policies.

SCOPE

The scope of our audit was fiscal years 2016 and 2017. We concluded our fieldwork on April 26, 2018.

METHODOLOGY

To satisfy our objectives, we performed the following:

- Gained an understanding of requirements outlined in the PFIA, the Rider 5 and other related provisions from the State Auditor's Office.
- Interviewed personnel to gain an understanding of processes relating to investments.
- Reviewed TWU's investment policies and investment portfolio.
- Identified investment types in the Institution's investment portfolio and reviewed for compliance with the PFIA.
- Reviewed annual investment reports for content, format and filing requirements.

We conducted our examination in conformance with the guidelines set forth in The Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing. The Standards are statements of core requirements for the professional practice of internal auditing. Additionally, we conducted the 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. The department is not in compliance with peer review requirements mandated by governmental auditing standards; the peer review has been scheduled for the first quarter of fiscal year 2019.



OBSERVATIONS

I. Ensure Investment Training is Completed and Legislative Changes to the PFIA are Reported to the Board

Sec. 2256.007 Investment Training; State Agency Board Members and Officers states:

(a) Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties.

(d) An investment officer shall attend a training session not less than once each state fiscal biennium and may receive training from any independent source approved by the governing body of the state agency. The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature.

Additionally, TWU Investment Policy 4.03 states:

The VPPFA and Investment Officer shall attend training by an independent source approved by the Board of Regents not less than once each state fiscal biennium.

It was determined that a member of the Board of Regents (Student Regent) who is a non-voting member of the board did not attend a training session relating to responsibilities under Sec. 2256.007. In addition, the Interim Vice President for Finance (IVPFA) did not complete investment training during the biennium as required by institutional policy. The IVPFA was scheduled to attend training, however, due to a last minute request to attend a legislative session, the IVPFA was unable to attend training as initially planned. Additionally, during the 85th Legislative Session, changes were made to the Public Funds Investment Act (PFIA). The changes were effective as of June 2017 and appear to only impact investments made after the effective date. However, no report was provided to the Board of Regents communicating the changes.



OBSERVATIONS

The lack of training among members of the Board and Senior Management may have a detrimental impact on awareness of current investment-related responsibilities.

Recommendation: The Office of the General Counsel should ensure that all board members attend a training session on the Public Funds Investment Act within six months after taking office or assuming duties. Also, the Vice President for Finance and Administration should ensure to attend investment training each biennium. Moreover, a report on legislative changes to the PFIA should be presented to the Board of Regents no later than the 180th day after the last day of each regular session of the legislature.

Management's Response: The incoming permanent Vice President for Finance and Administration and the Associate Vice President for Finance, Controller & Treasury (AVP) will complete the required training each biennium. Also, the required report to the Board of Regents regarding changes to the PFIA will be submitted to the Board of Regents no later than the February Board Meeting following the legislative session.

The Public Funds Investment Act (Texas Government Code, Section 2256.007) specifies mandatory investment training requirements for elected and appointed officials. The Office of General Counsel shall remind each new Regent, upon their appointment, of their obligation to attend at least one training session relating to their investment responsibilities within six months after taking office or assuming duties and shall provide each Regent access to the required investment training video entitled, "Protecting Public Funds: Responsibilities of Governing Boards under the Public Funds Investment Act".

Person Responsible for Implementation:

BJ Crain, Interim Vice President for Finance and Administration

Carolyn Whitlock, Associate Vice President - Controller and Treasury

Destinee Waiters, General Counsel



OBSERVATIONS

2. Enhance the Records Retention Schedule to Facilitate Retention of Investment Documentation

Sec. 2256.005. Investment Policies; Investment Strategies; Investment Officer states:

(k) A written copy of the investment policy shall be presented to any business organization offering to engage in an investment transaction with an investing entity The qualified representative of the business organization offering to engage in an investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

(1) received and reviewed the investment policy of the entity; and

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization:

(A) is dependent on an analysis of the makeup of the entity's entire portfolio;

(B) requires an interpretation of subjective investment standards; or

(C) relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

(l) The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a business organization that has not delivered to the entity the instrument required by Subsection (k).



OBSERVATIONS

Records of receipt and acknowledgment of TWU's investment policies for LOGIC were not available for review, since this investment agreements was initially executed more than five years ago. According to the institution's Records Retention Schedule, investment related documentation must only be maintained for four years. Therefore, we were unable to confirm that TWU provided copies of the investment policies, and received acknowledgements as required per the PFIA.

Recommendation: The Records Retention Schedule should be enhanced to require that investment related documentation be maintained for a period that would allow the institution to demonstrate that institutional investment policies were provided and the subsequent acknowledgements were received from entities that the institution has entered into investment related agreements.

Management's Response: [The Controller's Office will request a modification to the TWU records retention schedule to require these investment certifications to be maintained throughout the life of the agreements.](#)

Person Responsible for Implementation:

[Carolyn Whitlock, Associate Vice President - Controller and Treasury](#)



OBSERVATIONS

3. Ensure Reporting Methodology is Documented

The State Auditor's Office states:

To the greatest extent practical, the overall market value of investments and deposits reported in the Annual Investment Report (Including Deposits) should agree with the amounts reported in the institution's final financial statements for the fiscal year.

Although the Annual Investment Report (AIR) agrees to the greatest extent to the Annual Financial Report (AFR) for fiscal years 2016 and 2017, it was determined that the reporting method for the total investment amount reflected on the AFR was not consistent during the biennium. Total of investments for fiscal year 2016 was reported at gross which included the end-of-the-year adjustment from the Investment Manager. However, for fiscal year 2017, the amount was reported net of this adjustment. Without a documented methodology, the methodology that is utilized could be open to interpretation and could violate the consistency principle. The consistency principle states that, once an accounting principle or method is adopted, an institution continues to follow it consistently in future accounting periods. Changes to the methodology are only made if the new version in some way improves the accuracy of the financial results.

Recommendation: The Controller's Office should ensure that the reporting methodology for the total investment amount included on the annual financial report be documented.

Management's Response: [The Annual Investment Report procedures will be updated to include instructions to utilize the "Net Calculation" for the funds managed by the A&M System Cash Concentration Pool to ensure consistency in reporting.](#)

Person Responsible for Implementation:

[Carolyn Whitlock, Associate Vice President - Controller and Treasury](#)



OBSERVATIONS

4. Ensure the Audit of Investments is Completed and Filed Timely

Section 2256.005 (n), Investment Policies; Investment Strategies; Investment Officer, state:

(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.

Due to the Office of Internal Audit's turnover followed by a hiring freeze, an audit of investments was not completed and filed to the State Auditor's Office (SAO) timely. The Assistant Director for Internal Audit resigned his position on February 2016, subsequently the Director left his position on October 2016. The state hiring freeze went into effect from January 31, 2017 through August 31, 2017. A new Director was hired on December 1, 2017. The SAO was informed of the delay in completing the audit. A request for the institution to be provided an extension to complete the audit was subsequently submitted to the SAO, however the request was not approved. An untimely audit could lead to delayed detection of deficiencies and subsequent delays in implementation of corrective action of deficiencies.

Recommendation: Internal Audit should ensure that audits of investments are completed and filed timely each biennium.



OBSERVATIONS

5. Ensure Annual Investment Reports and Investment Policies are Properly Filed

General Appropriations Act (84th Legislature), Article III, Special Provisions Relating Only to State Agencies of Higher Education, 5. Investment Reports (Rider 5) state:

a. The governing board of each of the educational institutions named in this Article shall file with the State Auditor, Comptroller of Public Accounts, Legislative Budget Board, and the Governor an annual report of all investment transactions involving endowment funds, shortterm and long-term investment funds, and all other securities transactions, in a method prescribed by the State Auditor's Office.

b. The governing boards of each educational institution named in this Article must adopt formal investment policies. Each governing board shall submit to the Legislative Budget Board and State Auditor's Office a copy of their investment policy by December 31 of each year.

Although the Annual Investment Report (AIR) was completed and timely submitted to the State Auditor's Office (SAO), it was not submitted to the Comptroller and the Governor. Moreover, the AIR was submitted to the Legislative Budget Board (LBB) after Internal Audit made the request for submission documentation to be provided. In addition, there is no confirmation available that substantiates the investment policies were submitted to the LBB. Failing to submit investment reports timely to the appropriate agencies increases the possibility to be found non-compliant by those agencies in relation to the Rider 5.

Recommendation: The Controller's Office should ensure that annual investment reports and investment policies are filed timely and submitted to all the appropriate agencies.

Management's Response: [In addition to posting on the TWU Controller's website, a copy of the Investment Policy and Annual Investment Report will be physically mailed to the Governor's Office and State Comptroller's Office, and the report will be electronically uploaded to the Legislative Budget Board.](#)

Person Responsible for Implementation:

[Carolyn Whitlock, Associate Vice President - Controller and Treasury](#)



CONCLUSION

Based on the work performed, we conclude that overall, TWU is in compliance with the Public Funds Investment Act (PFIA) (Government Code, Section 2256) and the TWU Investment Policies. Management controls on investments are effective and adhere to the TWU Investment Policies. Implementation of the recommendations will enhance compliance with applicable requirements.

We appreciate the courtesy and cooperation received from the management and staff in the the Office of the Controller and Treasury as part of this audit.

STAFF ASSIGNED TO THE AUDIT

Maria D. Marroquin, MBA, CFE

Senior Auditor



PRIORITY FINDINGS AND RISK MATRIX

Definitions of Risks

Risk Level	Definition
Priority	High probability of occurrence that would significantly impact TWU. Reported to TWU Finance and Audit Committee (FAC). Priority findings reported to the FAC are defined as “an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of TWU as a whole.”
High	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to TWU operations. Without appropriate controls, the risk will happen on a consistent basis.
Medium	The risks are considered to be undesirable and could moderately expose TWU. Without appropriate controls, the risk will occur some of the time.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to TWU will be minimal.