

Texas Water Development Board



Review of Quarterly Investment Reports

Project #2019.05
January 2019

Executive Summary

We evaluated the Texas Water Development Board's (TWDB) fiscal year 2018 quarterly investment reports to determine whether they complied with the Public Funds Investment Act (Act), Texas Government Code, Section 2256.023, Internal Management Reports.

Overall, our review found that the agency substantially complied with the requirements outlined in Section 2256.023 of the Act. However, we also identified an opportunity to strengthen controls and improve processes to ensure that all investment reports are consistently signed by each investment officer.

Background

The Public Funds Investment Act governs the investment activities of state agencies and local governments in Texas. The Act requires that the quarterly investment reports, prepared by the agency's investment officers, be formally reviewed annually by an independent auditor and the results of the review be reported to the agency's governing body. The TWDB investment policy assigns the annual review of the quarterly investment reports to the Internal Audit Division.

The TWDB investment policy designates the Chief Financial Officer, the Development Fund Manager, and the Director of Accounting as the agency's investment officers. The investment officers are responsible for preparing and presenting the quarterly investment reports to the Board and the Executive Administrator as prescribed by Section 2256.023 of the Act.

As of August 31, 2018, TWDB had an investment portfolio of approximately \$1.4 billion for those funds managed by the Board. Investments 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 Board and Texas Water Resource Finance Authority in administering its financial assistance programs.

Objectives, Scope, and Methodology

Objective

The objective of the review was to determine whether the agency's quarterly investment reports complied with the Public Funds Investment Act, Texas Government Code, Section 2256.023, Internal Management Reports.

Scope and Methodology

The scope of the review covered fiscal year 2018 (September 1, 2017 to August 31, 2018) and was limited to funds managed by the Board.

The methodology consisted of a review of the following documentation:

- The Public Funds Investment Act (Texas Government Code, Section 2256.023).
- The TWDB investment policies and internal procedures.
- Board memos, meeting minutes, agendas, and related agency correspondence.
- Quarterly investment reports.
- The biennial compliance audit and the annual review of quarterly investment reports.

Tests and procedures included the following:

- Conducting interviews with management and staff.
- Reviewing each quarterly investment report to identify the specific attributes required by Section 2256.023.
- Evaluating related memos, meeting minutes, agendas, and related agency correspondence presented to the Board.

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:

Michelle Cooper, CGAP
Nicky Carter, CICA
Nicole Campbell, CIA, CISA

Detailed Results

We reviewed fiscal year 2018 quarterly investment reports to determine whether they complied with the Public Funds Investment Act (Act), Texas Government Code, Section 2256.023, Internal Management Reports.

Overall, our review found that the agency substantially complied with the requirements outlined in Section 2256.023 of the Act. However, we also identified an opportunity to strengthen controls and improve processes as it relates to Section 2256.023(b)(3).

1. Not all quarterly investment reports were consistently signed by each investment officer.

The agency's reports included the following attributes, as required by Section 2256.023:

- Detail of the agency's investment position.
- A summary statement for pooled funds.
- Book and market values of each separately invested asset at the beginning and end of each reporting period by asset and fund type.
- Maturity dates for each separately invested asset.
- Fund types for which 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.

In addition, all fiscal year 2018 quarterly investment reports were prepared and presented to the Board and the Executive Administrator within a reasonable time period after the end of each quarter.

However, our review identified an opportunity for process improvement. Documentation that the first quarter amended report was reviewed and signed by each investment officer was not maintained. We also noted that although the supporting documentation for the fourth quarter investment report was reviewed and signed by each investment officer, the report's cover memo, traditionally used to document the investment officer's signature, was not signed by each investment officer.

Recommendation

Existing internal procedures and/or policy should be updated and implemented to incorporate additional controls to ensure that all investment reports are consistently signed by each investment officer.

Management's Response:

The Quarterly Investment Report (QIR) compilation procedures will be enhanced to include the appropriate steps to follow should it be necessary to amend a QIR; and specific guidance concerning the transmittal memo of the QIR and signatures of the investment officers.

Responsible Party:

Chief Financial Officer

Implementation Date:

February 28, 2019

Closing

We would like to express our appreciation to all management and personnel for their cooperation and assistance provided to 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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