Internal Audit Report

#2014-1

Public Funds Investment Act

Compliance Audit

Report Date: 10/15/13

Board Review Date: 11/08/13
# Table of Contents

Auditor’s Transmittal Letter .......................................................... 1  
Executive Summary .................................................................... 2  
Audit Background, Methodology and Scope .......................... 3  
Results and Conclusions .............................................................. 3  
Audit Objective Summaries ...................................................... 4  
Summary of TSBVI Investments .............................................. 8  

ACRONYMS USED:

<table>
<thead>
<tr>
<th>CPA</th>
<th>Comptroller of Public Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>PFIA</td>
<td>Public Funds Investment Act</td>
</tr>
<tr>
<td>SAO</td>
<td>State Auditor’s Office</td>
</tr>
<tr>
<td>TGC</td>
<td>Texas Government Code</td>
</tr>
</tbody>
</table>
October 15, 2013

Members of the Board of Trustees
Texas School for the Blind and Visually Impaired

The following report provides the results of the internal audit of TSBVI’s compliance with the Public Funds Investment Act and the TSBVI Investment Policy.

Based on my review, it is my opinion that an adequate system of control has been established over the activities relating to Investments and that the school’s assigned responsibilities are being carried out efficiently and effectively.

The internal audit was conducted in accordance with generally accepted government auditing standards and Standards for the Professional Practice of Internal Auditing, as published by the Institute of Internal Auditors.

Signed Copy on File

Jaye Stepp, CPA, CIA, CGAP, CRMA
Internal Audit Director
Executive Summary

The purpose of this audit was to evaluate the investment activities at TSBVI to determine if they are in compliance with the Public Funds Investment Act (PFIA) and TSBVI’s investment policy. This audit is required to be performed every two years by the internal auditor and a report is due to the State Auditor’s Office by January first of even-numbered years. The results are reported to the Board of Trustees and oversight agencies.

Key Audit Observations

- TSBVI has adequate internal controls and effective procedures in place for managing the School’s investments.
- During the years ended August 31, 2012 and August 31, 2013, TSBVI was in compliance in all material respects with the requirements of the Public Funds Investment Act and the School’s Investment Policy CDA.

All prior audit recommendations related to investment activities at TSBVI have been implemented. There were no significant findings or recommendations in the current audit period. The Investment Officer and his staff are knowledgeable about their responsibilities, and experienced in their performance. Staff cooperation and assistance that facilitated an efficient audit process are appreciated.
Audit Background

The PFIA (Texas Government Code, Section 2256.005(n)) states: “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 [Texas Government Code]. 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.”

TSBVI Policy CDA also requires a periodic review of the investment policy internal controls, including an audit at least once every two years by the internal auditor.

Scope, Objectives and Methodology

The scope of the audit included the School’s investment activities for fiscal years 2012 and 2013. There were no unresolved prior audit recommendations to assess.

Audit objectives were to evaluate policies and procedures; identify and evaluate internal controls and communications, and perform tests of details to determine if current investment practices are in compliance with the PFIA and TSBVI’s Policy CDA.

The audit methodology included questionnaires and interviews with management and staff and review, analysis and testing of investment records and reports.

There were no instances of noncompliance identified in this audit.
Results and Conclusions

Audit Objective A – Compliance with the Public Funds Investment Act: To determine if the agency’s policies and procedures comply with the Public Funds Investment Act and such policies and procedures are appropriate and reasonable for the entity’s investment types and its investment goals and strategies.

An evaluation of TSBVI’s Policy CDA and Accounting Procedures for Investment of School Funds was conducted by identifying significant PFIA elements and tracing them to the TSBVI’s written guidance on investing. The Investment Policy includes the investment strategy and objectives, including types of authorized investments, and it calls for suitability of investments, preservation and safety of principal, liquidity, marketability, diversification and yield. The accounting procedure supports the Policy through internal operating and monitoring controls, and reiteration of approved instrument types, investment strategies and required reports to the Board.

As required by the PFIA and Policy CDA, the Board annually reviews the TSBVI Investment Policy and makes amendments, as needed. The Policy is being presented to the Board at their November meeting for consideration and approval. There were no changes made to the PFIA in the 2013 review.

Training requirements for Board members and Investment Officers have been met.

Conclusion:

The policy and procedures related to investments at TSBVI were found to be in compliance with the PFIA. No recommendations.
Objective B – Adequacy of Investment Internal Controls: To ascertain whether the School’s policies and procedures include internal controls over investments sufficient to safeguard assets, ensure proper conduct by participants in the investment process, and eliminate conflicts of interest.

TSBVI Policy CDA calls for a system of internal controls to be established and documented, in writing, and must designate who has authority to withdraw funds. They are also to be designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the School.

The controls deemed most important for the audit include:

1. Separation of transaction authority from accounting and record keeping.
2. Avoidance of collusion.
3. Custodial safekeeping.
5. Written confirmation of telephone transactions.
6. Avoidance of bearer-form securities.

These controls were reviewed by the School's internal auditor and they appear to be appropriate, practiced, and effective. The segregation of duties and management oversight controls observed provide an appropriate level of internal controls around investments at TSBVI.

TSBVI’s Investment Policy requires the Investment Officer to file a statement disclosing any personal business interest with an entity seeking to sell an investment to the School. The Investment Officer and his alternate sign a personal disclosure statement with
each investment report provided to the Board, stating that they have no business relationships with MBIA or any other investment managers retained by the School. There are currently no requirements at TSBVI for Board members to provide conflict of interest statements or financial disclosure statements, other than what is already provided to the Texas Ethics Commission.

Policy CDA requires sellers of investments, including business organizations that manage investment pools, to execute a written instrument stating that the registered principal has received and thoroughly reviewed the School’s Policy and acknowledge that they have implemented reasonable procedures and controls to preclude imprudent investment activities. MBIA has provided a written acknowledgement of TSBVI’s Investment Policy and implemented reasonable procedures and controls to preclude investment transactions that are not authorized. The portion of invested funds in the CLASS is currently at about 1% of the totals investments at TSBVI.

The largest portion of the TSBVI investment portfolio consists of CDs with initial investments made at $240,000 to stay below the FDIC threshold of $250,000. All current CDs are held at the First National Bank of Belleville. The concentration of risk at this bank is guaranteed by securities pledged by the bank to cover amounts that exceed FDIC limits in an agreement with TSBVI, to provide continuous security for all funds deposited with the Bank in accordance with TGC 2256.009.

Conclusion:

Internal control activities over investments at TSBVI are documented and are appropriate in that they support the stated objectives of the Investment Policy. No recommendations.
Audit Objective C – Communications: To determine if communication of information related to investments is timely, complete, and accurate.

Tests of details were performed on sampled investment reports from the audit period. Our tests included tracing amounts reported in each of the investment reports back to statements from the respective banks. We also traced investment decisions to authorizations and bank activity for CD transfer and roll-over activities. Reports were found to be accurate, complete and timely, for the most part. Two small calculation errors were noted and these have been discussed with staff.

Reports are delivered to the Board at each Board meeting. Discussion of investment strategies and positions are undertaken during the Finance and Audit Committee meeting, with further discussions with full Board as desired.

Conclusion:

No issues related to communications were noted.
## Summary of Investments at 8/31/13

<table>
<thead>
<tr>
<th>Investment</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDs</td>
<td>$820,000.00</td>
</tr>
<tr>
<td>Money Market</td>
<td>175,567.67</td>
</tr>
<tr>
<td>MBIA CLASS</td>
<td>11,175.24</td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td><strong>$1,006,741.91</strong></td>
</tr>
</tbody>
</table>

REPORT DISTRIBUTION

Copies of this report have been distributed to the following:

Board of Trustees, TSBVI
Joseph Muniz, Board President
Mary K Alexander, Board Vice-President
Caroline K. Daley, Board Secretary
Gene Brooks, Ph.D.
Anne Corn, Ed. D.
Bobby Druesedow, Jr.
    Cynthia Finley
    Michael Garrett
    Lee Sonnenberg

Texas School for the Blind and Visually Impaired
Bill Daugherty, Superintendent
Barney Schulz, Business Operations Manager

Governor’s Office of Budget and Planning, and Policy

Legislative Budget Board
    Mr. Ed Osner

Sunset Advisory Commission
    Mr. Ken Levine

State Auditor’s Office
    Internal Audit Coordinator