

**BOARD OF TRUSTEES AUDIT COMMITTEE MEETING
DALLAS COUNTY COMMUNITY COLLEGE DISTRICT
AND RICHLAND COLLEGIATE HIGH SCHOOL**

**District Office
1601 South Lamar Street
Lower Level, Room 007
Dallas, TX 75215
Tuesday, October 4, 2011
3:00 PM**

AGENDA

1. Certification of posting of notice of meeting Dr. Wright Lassiter
2. Pre-Audit Presentation by McConnell-Jones, LLP Wayne McConnell
Committee Action: None required
3. 4th Quarter Report from Internal Audit Rafael Godinez
Committee Action: None required
4. Special Internal Audit Report on Control Self- Assessment Study Rafael Godinez
Committee Action: None required
5. Annual Internal Audit Plan for 2011-2012 Rafael Godinez
Committee Action: None required
6. List of Qualified Brokers/Dealers Ed DesPlas
Committee Action: Motion to recommend approval of the list to the Board of Trustees
7. Report from Investment Officers on Training Ed DesPlas
Committee Action: None required
8. Review of Investment Policy Ed DesPlas
Committee Action: Motion to recommend approval of proposed changes to the Board of Trustees
9. Review of Chancellor's Travel Kathryn Tucker
Committee Action: None required
10. Executive Session

The Board may conduct an executive session as authorized under §551.074 of the Texas Government Code to deliberate on personnel matters, including commencement of annual evaluation of the chancellor and any prospective employee who is noted in Employment of Contractual Personnel.

As provided by §551.072 of the Texas Government Code, the Board of Trustees may conduct an executive session to deliberate regarding real property since open deliberation would have a detrimental effect upon negotiations with a third person.

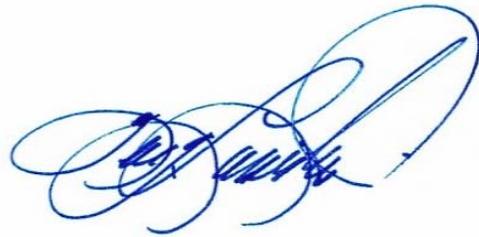
The Board may conduct an executive session under §551.071 of the Texas Government Code to seek the advice of its attorney on a matter in which the duty of the attorney under the Rules of Professional Conduct clearly conflict with the Open Meetings Act. The Board may seek or receive its attorney's advice on other legal matters during this executive session, including a date for the District's general election for trustees.

The Board may conduct an executive session under §551.076 of the Texas Government Code to deliberate regarding the deployment or specific occasions for implementation of security personnel or devices.

11. Adjournment

**CERTIFICATION OF NOTICE POSTED
FOR THE
OCTOBER 4, 2011
REGULAR MEETING OF THE
DALLAS COUNTY COMMUNITY COLLEGE DISTRICT
AND RICHLAND COLLEGIATE HIGH SCHOOL
BOARD OF TRUSTEES**

I, Wright L. Lassiter, Jr., Secretary of the Board of Trustees of the Dallas County Community College District, do certify that a copy of this notice was posted on the 30th of September 2011, in a place convenient to the public in the District Office Administration Building, and a copy of this notice was provided on the 30th of September 2011, to John F. Warren, County Clerk of Dallas County, Texas, and the notice was posted on the bulletin board at the George Allen, Sr. Courts Building, all as required by the Texas Government Code §551.054.

A handwritten signature in blue ink, appearing to read "Wright L. Lassiter, Jr.", is positioned above a horizontal line.

Wright L. Lassiter, Jr., Secretary

TO: Audit Committee of the Board of Trustees

FROM: Rafael J. Godinez, CPA

DATE: September 9, 2011

RE: Quarterly Summary of Activities
For the 4th Quarter Ended August 31, 2011

The following is a summary of activities by the DCCCD Internal Audit Department during the fourth quarter of Fiscal Year 2011.

AUDITS COMPLETED – Reports Issued

- Adjunct Faculty Teaching Load

The purpose of the audit was to test for compliance with Board Policy and Human Resources Guidelines pertaining to the maximum teaching load for adjunct faculty. The maximum workload for adjunct faculty shall not exceed 14.7 hours each week or 49% of a full-time faculty's workload including preparing for and teaching assigned classes, conducting examinations, and submitting grades. Two colleges (Cedar Valley and Richland) each had one instructor who exceeded the maximum allowable teaching load. These were isolated lapses in oversight.

- Travel Expenses

The purpose of the audit was to test for compliance with Board Policy and Business Office Procedures pertaining to employee travel. Travel documentation submitted for reimbursement was selected on a sample basis for testing. This included administrators, faculty and support staff from all District locations. No significant findings were noted. Minor errors or oversights were found and reported to the various locations resulting in repayment to the District. No significant findings were noted.

- Analytical Data Review - Payroll

The District utilizes the integrated Datatel Colleague Human Resource/Payroll module to maintain employee records and process periodic payroll. We conducted an analytical review and audit of payroll records for the period of September 1, 2010 through April 30, 2011 which included 56,347 detailed employee payroll records. The review was based on specific criteria which included records with pay changes, two or more deposits to the same bank account, out of state addresses, gross pay amounts exceeding certain limits, and other selection criteria.

Audit Committee Report

September 9, 2011

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Documentation was reviewed for those records selected for testing to ensure accuracy and reasonableness of results and adequacy of approvals for records used to support hires, changes, terminations, pay rates, and contracts. No reportable recommendations were made as a result of the audit. Datatel payroll records were accurate and reasonable and employee records were supported and approved.

- Enrollment Audit

The purpose of the audit was to ensure the accuracy and completeness of student enrollment information submitted to the Texas Higher Education Coordinating Board, and that the data is consistent with the District's Colleague student records. We also tested for compliance with requirements pertaining to the payment of tuition by the specified dates and the residency of students. No findings were noted.

- Analytical Data Review - Payables

As with the Payroll review, we conducted an analytical review of the Datatel Colleague Accounts Payable module which maintains vendor records and processes vouchers for payment of authorized transactions. Vendors are categorized as "employee", "other", "student", and "vendor." Records for the period of September 1, 2010 through July 31, 2011 subject to review included 294,218 Vendors, 172,256 Vouchers and 136,131 non-payroll checks. The primary objective of the audit was verifying the accuracy and reasonableness of the Accounts Payable records that had been entered into the system. In particular, the potential for duplicate payments was reviewed for the samples selected. Based on the analytical review, the records were found to be accurate and reasonable.

- Other

The results of the Control Self-Assessment survey (Information Privacy and Security) have been tabulated and provided as an attachment to this report. Although the responses indicate a small improvement from the results seen two years ago, it is important that additional training strategies be developed to continue raising employees' awareness about security issues and techniques.

cc Wright Lassiter
Ed DesPlas

District Wide 2011 CSA Survey Results - Totals for All Locations

	YES	NO	TOTAL	% YES	% NO
1. Are you aware of DCCCD's Information Classification Scheme that defines public, internal and confidential information types?	596	383	979	61%	39%
2. Are you aware of what constitutes student directory information vs. student confidential record information?	786	193	979	80%	20%
3. Do you know who the Information Privacy and Security Officer (IPSO) is at your location?	521	415	936	56%	44%
4. Are you aware that confidential information must only be saved on secure DCCCD network drives (e.g. U:, P: drives, etc.) and not on your C drive or external media (e.g., CD/DVDs, USB, portable drives, etc.) or online storage/cloud computing services (e.g., DropBox, LiveDrive, etc.) unless specifically approved by your location IPSO as meeting DCCCD security requirements?	796	140	936	85%	15%
5. Are you aware that recorded grades, including final grades, are considered confidential information?	898	38	936	96%	4%
6. Are you aware that confidential information must never be sent via email unless it is transmitted securely as an attachment using an encryption method approved by your location IPSO?	774	162	936	83%	17%

	YES	NO	TOTAL	% YES	% NO
7. Are you aware that instant messaging programs are not secure and must never be used to send confidential information?	854	82	936	91%	9%
8. Did you know that credit card account numbers must not be solicited or accepted via email or fax?	838	98	936	90%	10%
9. When it is necessary to send a fax with internal or confidential information, do you know you must call ahead to alert the recipient so that they can promptly retrieve the information?	692	244	936	74%	26%
10. Do you know you can lock your Windows workstation by pressing the Windows key and “L” at the same time on your keyboard?	563	373	936	60%	40%
11. Do you know that “confetti” cut shredders must be used for shredding confidential information?	782	154	936	84%	16%
12. Do you know you should contact the DSC Records Management Department if you have questions concerning the retention, storage, and disposal of confidential documents?	692	244	936	74%	26%
13, Are you aware that DCCCD work-related passwords should not be re-used for access to systems outside of the DCCCD environment?	709	225	934	76%	24%
14, Do you know the recommended guidelines for creating strong secure passwords?	804	130	934	86%	14%

	YES	NO	TOTAL		% YES	% NO
15. Do you know that you should only use your GroupWise email address alias and never use your Novell formatted GroupWise email address (e.g., abc1234@dccd.edu) with: •non-DCCCD contacts, •on business cards, •Web sites, •as a GroupWise email signature, or •in any print publications?	817	117	934		87%	13%
16. Do you know how to request a GroupWise email address alias?	605	329	934		65%	35%
17. Do you know that written requests received for student directory information must be sent to the Registrar's Office?	607	321	928		65%	35%
18. Are you aware that written requests for student information other than directory information must be faxed to the District Legal department?	366	562	928		39%	61%
19. Are you aware that in accordance with Board Policy DH (LOCAL), VIOLATIONS, employees shall comply with the standards of conduct set out in DH (LOCAL) policy and with any other policies, regulations, and guidelines that impose duties, requirements, or standards attendant to their status as District employees?	802	126	928		86%	14%

	YES	NO	TOTAL		% YES	% NO
20. Are you aware that you must immediately report to your location Incident Response Coordinator any incidents involving sensitive information (including electronic devices containing sensitive information) that may have been: •lost, stolen, missing; •accidentally released; •sent to the wrong person; •misused and/or •involved in unauthorized access?	738	190	928		80%	20%
21. Do you know who your location Information Privacy and Security (IPS) Incident Response Coordinator is?	440	488	928		47%	53%
22. Do you know that as stated in Board Policy CR(LOCAL), users have a lessened expectation of privacy when using computer resources and facilities owned by DCCCD, and that content of electronic files will be examined or disclosed only when authorized by designated DCCCD officials, or required by law?	685	234	919		75%	25%
23. Do you know that incidental use of computing resources is acceptable if the use: a. Imposes no measurable cost on the DCCCD; b. Is not harmful to the DCCCD; c. Is not a hindrance to the daily operations of the DCCCD; and d. Has no adverse effect upon an individual's job or educational performance?	733	186	919		80%	20%

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

Internal Audit Department

Plan for the Year Ending August 31, 2012

<u>Audit Staff</u>	<u>Degree/ Certification</u>	<u>Title</u>	<u>Starting Date</u>
Godinez, Rafael	BBA, CPA	Director	June 1988
Archer, Anthony	BBA	Auditor II	April 1999
Styrvoky, Paul	BS, CISA, ITIL	IT Auditor	August 2010
Vacant		Auditor I	January 2012

Total Available Days	961	100%
Less Non-Audit Days:		
	62	6%
	63	7%
	44	5%
	25	3%
	<u>203</u>	21%
	<u>397</u>	41%
Net Audit Days Available	564	59%
Reserved for Special Requests	<u>24</u>	2%
Net Planned Audit Days	<u><u>540</u></u>	56%

Planned Audits

<u>Audit Number</u>	<u>Description</u>	<u>Estimated Man-days</u>
2012-01	ASSISTANCE TO MCCONNELL & JONES LLP Audits in conjunction with the financial and A-133 reviews. - Federal Programs/Financial Aid - Disbursement: General - Disbursement: Payroll - Other Requests	30 10 10 10
2012-02	FOLLOW-UP ON PREVIOUS AUDITS Review status of implementation of prior audit recommendations.	25
2012-03	CASH AND IMPREST FUNDS Review and test controls over cash on hand accounts and compliance with business procedures.	15
2012-04	PHYSICAL ASSETS INVENTORY OBSERVATION Observe and test physical inventory and procedures pertaining to changes in inventory records.	30
2012-05	EMPLOYEE TRAVEL EXPENSES Audit of travel expense reports for compliance with District policies.	25
2012-06	RICHLAND COLLEGIATE HIGH SCHOOL Audit for compliance with Texas Education Agency attendance verification requirements.	20
2012-07	DISTRICT INVESTMENTS Audit of the treasury function for compliance with investment policy and accounting controls.	25

<u>Audit Number</u>	<u>Description</u>	<u>Estimated Man-days</u>
2012-08	GLOBAL FINANCIAL AID SERVICES Audit for compliance with contract provisions and review of security over student information.	30
2012-09	GRANT AUDIT - Skills Development - CLAM Audit for compliance with grant provisions and District policies. (El Centro College)	30
2012-10	GRANT AUDIT - Partnership w/ Manfg. Consortium Audit for compliance with grant provisions and District policies. (Richland College)	30
2012-11	STUDENT & EXCHANGE VISITOR PROGRAM Audit for compliance with Federal regulations pertaining to reporting of foreign student status.	25
2012-12	ACCESS AND CONTROLS - PAPERWISE Audit of controls over access to the PaperWise document maintenance system.	25
2012-13	STUDENT WAIVERS Audit of waivers to tuition for compliance with State laws and regulations and District guidelines.	30
2012-14	EMPLOYEES AWARDED FEDERAL ASSISTANCE Audit of federal financial assistance awarded to current district employees for compliance with regulations.	30
2012-15	CAMPUS COMPUTING GENERAL CONTROLS Audit of campus computing operating environment and general controls.	25
2012-16	ACCESS CONTROLS - DISBURSEMENT CYCLE Audit of controls over access to the Colleague system purchasing and accounts payable application modules.	25

<u>Audit Number</u>	<u>Description</u>	<u>Estimated Man-days</u>
2012-17	NON FACULTY DAY TEACHING CONTRACTS Audit for compliance with District operating guidelines pertaining to non faculty employees teaching contracts.	30
2012-18	GASOLINE CREDIT CARD UTILIZATION Audit for compliance and controls over the utilization of gasoline credit cards district wide.	30
2012-19	BLANKET PURCHASE ORDERS Audit of purchases made from various blanket purchase orders by all District locations.	30
		<hr/>
		<u>540</u>

FINANCIAL REPORT NO. 6

Approval of Broker-Dealers

The chancellor recommends that the Board of Trustees approve the attached list of broker-dealers.

Policy Reminders

Board policies pertinent to evaluating a recommendation for approval of broker-dealers include:

The Board or a designated investment committee, shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the College District. CAK (LEGAL), Gov't Code 2256.025

LIST OF QUALIFIED BROKER-DEALERS

INVESTMENT POOLS RECOMMENDED

The investment pools listed in this report, TexPool and TexSTAR were organized in accordance with The Interlocal Cooperation Act and the Public Funds Investment Act, (Chapters 791 and 2256) of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments.

TexPool: TexPool is a local government investment pool created in 1989, on behalf of Texas entities whose investment objectives are preservation and safety of principal, liquidity and yield consistent with the Public Funds Investment Act. The State Comptroller of Public Accounts oversees TexPool. Federated Investors manages the assets and provides service. TexPool offers a convenient and effective choice for the investment of local funds. As a Standard & Poor's AAAM rated local government investment pool, TexPool is committed to maintaining safety and stability. As of August 2011, TexPool had 2,248 participants and a total invested balance of \$14.2 billion.¹ TexPool's weighted average maturity is 46 days.

TexSTAR: TexSTAR was created in April 2002 through a contract among its participating governing units. The pool is governed by a board of directors to provide for the joint investment of participants' public funds under their control. TexSTAR is administered by JP Morgan Chase and First Southwest Asset Management, Inc. TexSTAR is organized in full compliance with the Texas Public Funds Investment Act. As of August 2011; TexSTAR has 735 participants, a total invested balance of more than \$4.7 billion, and a weighted average maturity of 48 days. TexSTAR maintains a Standard & Poor's AAAM rating².

¹ Source: August 2011 TexPool Newsletter

² Source: August 2011 TexSTAR Newsletter

BROKER-DEALERS

Annually the District performs due diligence on the brokers/dealers that are approved to do business with the District. This is accomplished by verifying each brokers/dealer's registration with the Texas State Securities Board, membership in the Securities Investor Protection Corporation, and good standing with the Financial Industry Regulatory Authority. Further, due diligence included researching the record of actions taken by individuals and filed with the Financial Industry Regulatory Authority. Each of the following brokers/dealers has been reviewed. None have actions that involve any criminal activity. The actions listed are various lawsuits and arbitration actions taken by the SEC that are not material in effect.

All brokers/dealers are registered with the Security and Exchange Commission (SEC), the Texas State Securities Board (TSSB), members of the Securities Investor Protection Corporation (SIPC) and in good standing with the Financial Industry Regulatory Authority (FINRA) formerly known as the National Association of Securities Dealers (NASD). Primary brokers/dealers may perform treasury and federal agency notes transactions and repurchase transactions with the District. Secondary brokers/dealers may perform only treasury and federal agency notes transactions for the District.

PRIMARY DEALERS

Bank of America, Merrill Lynch: This firm is a subsidiary of Bank of America Corporation (NYSE:BAC) and is a product of the firm's 2009 merger with Merrill Lynch. The company's Global Capital Markets and Investment Banking (GCIB) group provides investment banking, equity and debt capital raising, research, trading, risk management, treasury management and financial advisory services. Through offices in 35 countries, GCIB serves domestic and international corporations, institutional investors, financial institutions and government entities.

Deutsche Bank Alex Brown Securities Inc.: This firm is a subsidiary of Deutsche Bank (NYSE:DB). One of the world's largest and most respected global financial institutions, Deutsche Bank today serves 31 million clients in 74 countries around the world. Deutsche Bank Alex.Brown is the private wealth management subsidiary of Deutsche Bank. Deutsche Bank Alex.Brown and its 260 Client Advisors operate in 16 branch offices around the United States. These Client Advisors deliver information, advice and investment solutions to a highly sophisticated client base that includes high net worth individuals and families, institutions and corporate clients.

Cantor Fitzgerald L. P.: Cantor Fitzgerald is a privately owned, premier global financial services firm. Formed in 1945, Cantor Fitzgerald is one of only 18 primary dealers authorized to trade U.S. government securities with The Federal Reserve Bank of New York. One of the few remaining private partnerships on Wall Street, Cantor Fitzgerald is a preeminent capital markets investment bank, recognized for its strengths in the equity and fixed income capital markets. Cantor operates trading desks in every major financial center in the world, including Dallas, Texas.

UBS Financial Services, Inc. UBS AG is the parent of the UBS Group (NYSE: UBS) which includes primary dealer, UBS Securities, LLC, and UBS Financial Services Inc. UBS Financial Services Inc. provides advice-based solutions through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of public and private institutions, and high net worth individuals and families. UBS Financial Services Inc. also provides advanced research on capital markets, municipal and commodity markets, and the global economy in order to present a broad analysis of specific economic topics that provide an understanding of the current and prospective investment environment.

RBC Capital Markets: This is a wholly owned subsidiary of Royal Bank of Canada (NYSE: RY). The company's broker-dealer, RBC Dain Rauscher Inc., serves institutional investors, individual investors and small business owners through offices across the United States, including an office in Dallas, Texas. RBC provides personal and commercial banking, wealth management and investment banking services to personal, business, public sector and institutional clients.

SECONDARY DEALERS

Wells Fargo Brokerage Services, LLC is a national financial services firm with an experienced team of brokers, traders and sales assistants who are affiliated with Wells Fargo Institutional Securities, LLC. They are members of FINRA and SIPC. They provide a full-service approach with support in sales of treasuries, agency securities, and other money market securities. Wells Fargo is a primary dealer of agency securities and a secondary dealer of treasuries.

Coastal Securities L.P.: Headquartered in Houston, Texas, Coastal Securities L.P. was founded in 1991 as a broker-dealer of fixed income securities. Coastal Securities L.P. serves as either an underwriter or financial advisor to a variety of public entities. In June 1996, Coastal Securities L.P. acquired another Houston-based securities firm, confirming Coastal's commitment to the fixed income market.

Robert W. Baird & Company: Baird is an employee-owned wealth management, capital markets, asset management and private equity firm with client assets of more than \$78 billion. Founded in 1919, Baird has grown from its Midwestern roots into an international financial services firm recognized for the quality advice and service we provide our clients. Baird has extensive experience and expertise in serving the specialized investment needs of corporations and institutions.

REPORT FROM INVESTMENT OFFICERS ON TRAINING

Board Members (0)

Board Policy CAK (LEGAL) provides: *Each member of the Board and its investment officer shall attend at least one training session, provided by the Texas Higher Education Coordinating Board, relating to the person's responsibilities under the Public Funds Investment Act within six months after taking office or assuming duties.*

<u>Name</u>	<u>Training Date</u>	<u>Source</u>
None		

Investment Officers (1)

Board Policy CAK (LEGAL) provides: *The investment officer shall attend a training session not less than once in a two-year period and may receive training from any independent source approved by the Board.*

One officer took required training this past year.

<u>Name</u>	<u>Training Date</u>	<u>Expiration Date</u>	<u>Source</u>
Ed DesPlas	January 13, 2011	January 13, 2013	University of North Texas Center for Public Management

Investment Staff (1)

In addition to the investment officer named above, the District's investment analyst attended training as follows:

<u>Name</u>	<u>Training Date</u>	<u>Expiration Date</u>	<u>Source</u>
Marcus Warr	July 15, 2011	July 15, 2013	University of North Texas Center for Public Management

POLICY REPORT NO. 8

Approval of Resolution Relating to Investment Policy

It is recommended that the resolution reflecting review of the investment policy and strategies be approved, and, that Board Policy CAK (LOCAL) revised as follows.

Effective date: October 4, 2011

Background

Board Policy CAK (LEGAL), paragraph on ANNUAL REVIEW, states: *The Board shall adopt a written instrument 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.*

The Audit Committee reviewed investment policies and strategies on October 4, 2011. Trustees who serve on the Audit Committee are Mr. Ferguson, (chair), Ms. Boyle and Ms. Charletta Compton.

RESOLUTION
OF THE BOARD OF TRUSTEES
OF THE DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

WHEREAS, the Audit Committee of the Board of Trustees of Dallas County Community College District in its quarterly meeting on October 4, 2011, reviewed the Board's investment policy and strategies; and

WHEREAS, the Audit Committee further recommended comprehensive changes to the investment policy, CAK (Local) major items of which include:

1. Requirement that the investment officer shall monitor investments acquired with public funds for rating changes, in conformance with the Public Funds Investment Act as amended in the 82nd session of the Texas Legislature.
2. Requirement that the investment officer attend investment training during each state fiscal biennium, in conformance with the Public Funds Investment Act as amended in the 82nd session of the Texas Legislature. This requirement amends the previous requirement that the investment officer attend investment training not less than once in a two year period.
3. Adding to AUTHORIZED INVESTMENT INSTRUMENTS those investments that are fully guaranteed or insured by the FDIC, in conformance with the Public Funds Investment Act as amended in the 82nd session of the Texas Legislature
4. Allowing investment in AUTHORIZED INVESTMENT INSTRUMENTS, specifically Certificates of deposit and share certificates that are fully guaranteed or insured by the FDIC, through an authorized broker/dealer to one or more than one depository institution, in conformance with the Public Funds Investment Act as amended in the 82nd session of the Texas Legislature; and

WHEREAS, the Audit Committee's review and recommendation was considered by the Board of Trustees at its regular meeting on October 4, 2011; NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF TRUSTEES OF DALLAS COUNTY COMMUNITY COLLEGE DISTRICT:

Section 1. That the Audit Committee's review of the Board's investment policy and strategies is accepted and approved.

Section 2. That the recommended changes to CAK (Local) as cited above by the Audit Committee and its recommendation is accepted and approved.

Section 3. That this resolution is effective upon adoption by the Board of Trustees.

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

By: _____
Jerry M. Prater, Chair
Board of Trustees

ATTEST

By: _____
Wright L. Lassiter, Jr., Secretary to
The Board of Trustees
Dallas County Community College District

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

“SAFETY AND
INVESTMENT
MANAGEMENT

The College District and its investment officer shall ensure that all available funds are invested to the maximum extent possible at the highest rates obtainable at the time of investment in conformance with the Public Funds Investment Act and this policy. The College District’s investment strategy is as follows:

1. Preservation and safety of principal.
2. Maintenance of sufficient liquidity to meet operational needs.
3. Security of College District funds and investments.
4. Diversification of investments to avoid unreasonable or avoidable risks.

The College District’s portfolio is designed and managed in a manner to promote the best interest of the College District and the public. The College District’s conservative investment strategy is rooted in the Public Funds Investment Act’s Standard of Care, which states: “Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering probable safety of capital and probable income to be derived.

All investment transactions except investment pool funds and mutual funds shall be executed on a delivery-versus-payment basis.

SCOPE

This policy applies to all investment activity of the College District, including Brookhaven College, Cedar Valley College, Eastfield College, El Centro College, Mountain View College, North Lake

AUTHORIZED
INVESTMENTS
INSTRUMENTS

College, and Richland College.

The College District may make investments only in the following types of instruments:

1. Treasury bills, treasury notes, and treasury bonds of the United States and other direct obligations of the agencies and instrumentalities of the United States as permitted by Government code 2256.009.
2. Fully collateralized repurchase agreements and reverse repurchase agreements permitted by Government Code 2256.011.
3. Certificates of deposit and share certificates that are fully guaranteed or insured by the FDIC, through an authorized broker/dealer to one or more than one depository institution, as permitted by Government Code 2256.010.
4. Public funds investment pools as permitted by Government Code 2256.016.
5. A securities lending program as permitted by Government Code 2256.0115.
6. No-load money market mutual funds as permitted by Government Code 2256.014.
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.
8. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent as permitted by Government Code 2256.009(a).
9. Investments that are fully guaranteed or insured by the FDIC.

Investment in any and all types of derivatives is prohibited.

All investments are prohibited unless expressly described in this policy in the section, **AUTHORIZED INVESTMENTS INSTRUMENTS**, which are made in conformity to the Public Funds Investment Act.

MONITORING MARKET PRICES

The investment officer shall monitor investments acquired with public funds for rating changes. Monitoring shall be done monthly and more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment. The investment officer shall keep the Board informed of significant declines in the market value of the College District's investment portfolio at least quarterly. Information sources may include financial/investment publications and electronic media, available software for tracking investments, depository banks, commercial or investment banks, financial advisors, and representatives/advisors of investment pools or money market funds.

LIQUIDITY AND DIVERSIFICATION

The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer. The following are guidelines for maximums:

- | | | |
|----|---|------|
| 1. | U.S. Treasury Securities | 100% |
| 2. | Agencies and Instrumentalities | 85% |
| 3. | Insured or collateralized Certificates of Deposit | 100% |
| 4. | Repurchase Agreements* | 20% |
| 5. | Money Market Mutual Funds | 50% |
| 6. | Authorized Investment Pools | 50% |

*Excluding flexible repurchase agreements for bond proceeds investments.

To maintain a sufficient level of liquidity, at least ten percent of the portfolio will be maintained in

investment pools.

MATURITY AND LIQUIDITY

The College District will only make investments as defined in this policy, in the section AUTHORIZED INVESTMENT(S) INSTRUMENTS, for a term of no greater than six years with the condition that the average maturity of the portfolio will be no more than four years. A reverse repurchase agreement may not exceed 90 days and may not be used to purchase any investment whose final maturity date exceeds the expiration date of the reverse repurchase agreement. The College District's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements.

INTEREST RATE RISK

To reduce exposure to changes in interest rates that could adversely affect the value of investments, the College District shall use final and weighted-average-maturity limits and diversification.

The College District shall monitor interest rate risk using weighted average maturity and specific identification.

AUTHORITY

The executive vice chancellor of business affairs or his or her designee shall serve as the investment officer of the College District and shall invest College District funds as directed by the Board and in accordance with the College District's written investment policies.

REVIEW AND TRAINING

The Board shall review its investment policy and investment strategy at least once each year and adopt a resolution that evidences the review. The Board shall, at least annually, review, revise, and adopt a list of qualified brokers who are authorized to engage in investment transactions with the College District.

Each member of the Board and the investment officer shall attend at least one training session relating to the person's responsibilities under the Public Funds Investment Act within six months after taking office or assuming duties. In addition, the investment officer shall attend a training session during each state fiscal biennium (~~not less than once in a two-year period~~) and may receive training from any independent source approved by

ADMINISTRATION OF INVESTMENTS

the Board. The investment officer may also require other staff to complete investment training during each state fiscal biennium (every two years). The investment officer shall prepare a report describing changes in the law and their impact on the College District's investment policy and strategy. The report shall be delivered to the Board no later than the 180th day after the last day of each regular session of the legislature.

The administration and procedures for investing College District funds and for requiring ethics disclosures of investment advisors shall be prescribed by the executive vice chancellor of business affairs in the appropriate section of the College District business procedures manual, as amended. The administration and procedures shall be consistent with this policy.

FUNDS/ STRATEGIES

Investments of the following fund categories shall be consistent with this policy and in accordance with the strategy defined below. For pooled investments the College District will consolidate cash balances from all funds in the pool to maximize investment earnings. The earnings will be allocated to the various funds participating in the pool based on their respective participation and in accordance with generally accepted accounting principles.

OPERATING FUNDS: Investment strategies for operating funds (including any commingled pools containing operating funds) shall have as their primary objectives safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

QUASI-ENDOWMENT FUNDS: Investment strategies for quasi-endowments funds (including any commingled pools containing quasi-endowment funds) shall have as their primary objectives safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

DEBT SERVICE FUNDS: Investment strategies for debt service funds shall have as their objective sufficient investment liquidity to timely meet debt service payment obligations in accordance with provisions in the bond documents. Reserve funds for revenue debt may be invested for long-term

maturity in order to maximize return on investment. Maturities longer than one year are authorized provided legal limits are not exceeded.

UNEXPENDED PLANT FUNDS: Investment strategies for capital projects in the unexpended plant funds shall have as their objective sufficient investment liquidity to timely meet capital project obligations.

SAFEKEEPING AND CUSTODY

The College District shall retain clearly marked receipts providing proof of the College District's ownership. The College District may delegate, however, to an investment pool the authority to hold legal title as custodian of investments purchased with College District funds by the investment pool. The College District shall contract with a bank or banks for the safekeeping of securities either owned by the College District as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by the College District shall be held in the College District's name as evidenced by safekeeping receipts of the institution holding the securities.

COLLATERALIZED DEPOSITS

Collateral for deposits will be held by a third party custodian designated by the College District and pledged to the College District as evidenced by safekeeping receipts of the institution with which the collateral is deposited. Original safekeeping receipts shall be obtained. Collateral may be held by the depository bank's trust department, a Federal Reserve bank or a branch of a Federal Reserve bank, or a third party bank approved by the College District.

BROKERS / DEALERS

Prior to handling investments on behalf of the College District, brokers/dealers must submit required written documents in accordance with law. Representatives of brokers/dealers shall be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC), and be in good standing with the Financial Industry Regulatory Authority (FINRA). Those firms that request to become qualified bidders for securities transactions will be required to provide 1) a completed broker/dealer questionnaire that provides information regarding creditworthiness,

experience and reputation and 2) a certification stating the firm has received, read and understood the College District's investment policy and agree to comply with the policy. Authorized firms may include primary dealers or regional dealers that qualify under Securities Exchange Commission rule 15C3-1(Uniform Net Capital Rule), and qualified depositories.

SOLICITING BIDS FOR CD'S OR OTHER SECURITIES

In order to get the best return on its investments, the College District may solicit bids for certificates of deposit or other securities in writing, by telephone, or electronically, or by a combination of these methods. It is the policy of the College District to require competitive bidding for all individual security purchases and sales except for: a) transactions with money market mutual funds and local government investment pools and b) treasury and agency securities purchased at issue through an approved broker/dealer or financial institution.

INTERNAL CONTROLS

A system of internal controls shall be established and documented in writing and must include specific procedures designating who has authority to withdraw funds. Also, controls shall 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 College District. Controls deemed most important shall include:

1. Separation of transaction authority from accounting and recordkeeping and electronic transfer of funds.
2. Avoidance of collusion.
3. Custodial safekeeping.
4. Clear delegation of authority.
5. Written confirmation of telephone transactions.
6. Documentation of dealer questionnaires, quotations and bids, evaluations,

transactions, and rationale.

7. Avoidance of bearer-form securities.

These controls shall be reviewed by the College District's independent auditing firm during the College District's annual financial audit."