

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

**District Office  
1601 South Lamar Street  
Dallas, TX 75215  
Lower Level, Room 007  
Tuesday, October 2, 2012  
1:00 PM**

**AGENDA**

- |   |                                      |
|---|--------------------------------------|
| 1. Certification of posting of notice of meeting  | Wright Lassiter                      |
| 2. Pre-Audit Presentation by McConnell & Jones, LLP<br><b>Committee Action:</b> No action required  | McConnell & Jones,<br>LLP            |
| 3. 3 <sup>rd</sup> Quarter Report from Internal Audit<br><b>Committee Action:</b> Review as required by Board<br>Policy CDC (LOCAL)   | Rafael Godinez                       |
| 4. 4th Quarter Report from Internal Audit<br><b>Committee Action:</b> Review as required by Board<br>Policy CDC (LOCAL)   | Rafael Godinez                       |
| 5. Annual Internal Audit Plan for 2012-2013<br><b>Committee Action:</b> No action required  | Rafael Godinez                       |
| 6. List of Qualified Brokers/Dealers<br><b>Committee Action:</b> Motion to present a financial<br>report to the Board of Trustees at its regular meeting<br>on October 2, 2012, as provided by Board Policies<br>CAK (LEGAL and LOCAL)              | John Robertson for<br>Edward DesPlas |
| 7. Report from Investment Officers on Training<br><b>Committee Action:</b> No action required   | John Robertson for<br>Edward DesPlas |
| 8. Review of Investment Policy<br><b>Committee Action:</b> Motion to present a resolution<br>to the Board at its regular meeting on October 2,<br>2012, evidencing the Board has reviewed policy and<br>strategy, as provided by Board Policies CAK | John Robertson for<br>Edward DesPlas |

(LEGAL and LOCAL)

9. Review of Chancellor's Travel  
**Committee Action:** No action required

Susan Hall

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 and/or consideration of contract of the Chancellor and any prospective employee who is noted in Employment of Contractual Personnel.

The Board may conduct an executive session under §551.071 of the Texas Government Code to seek the advice of its attorney and/or on a matter in which the duty of the attorneys under the Rules of Professional Conduct clearly conflict with the Open Meetings Act.

11. Adjournment

**CERTIFICATION OF NOTICE POSTED  
FOR THE OCTOBER 2, 2012  
AUDIT COMMITTEE 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 28<sup>th</sup> of September 2012, in a place convenient to the public in the District Office Administration Building, and a copy of this notice was provided on the 28<sup>th</sup> of September 2012, 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.



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Wright L. Lassiter, Jr., Secretary

**TO:** Audit Committee of the Board of Trustees

**FROM:** Rafael J. Godinez, CPA

**DATE:** June 7, 2012

**RE:** Quarterly Summary of Activities  
For the 3<sup>rd</sup> Quarter Ended May 31, 2012

The following is a summary of activities by the DCCCD Internal Audit Department since the Audit Committee meeting of April 3, 2012.

**AUDITS COMPLETED – Reports Issued**

**- Gasoline Credit Cards – District Wide**

The objectives of the audit were to verify the existence of all cards issued to the various District locations, the adequacy of procedures for recording and controlling the usage of the cards, and to ensure the proper security of the cards when not in use. A database of charges was created to facilitate an analysis of utilization of the cards. This revealed a large number of very unusual locations, sequential purchases and large quantities of gas purchased using several credit cards assigned to the police department at Richland College. The Richland police chief performed his own investigation and determined the identity of the suspect. The officer in question was terminated. The loss due to this unauthorized use was approximately \$16,700 over a period of one and a half years. New procedures have been implemented to improve controls over the use of gasoline credit cards.

Additionally, 10 of 64 credit cards at five locations could not be properly accounted for and were subsequently cancelled.

**- Supplemental Employment Agreements, Teaching – District Wide**

Full time administrators and professional staff may receive Supplemental Employment Agreements (SEA) for teaching credit and non-credit courses. When the courses being taught fall during the normal working hours of 8:00 AM and 5:00 PM, the employee must either take personal leave or have a previously approved (by the location cabinet member) adjusted work schedule on file indicating when they are to make up the hours for which the SEA was issued. The purpose of the audit was to ensure that full time administrators or professional staffs who received SEA's for daytime teaching have filed an appropriately approved adjusted work schedule.

The audit revealed adjusted work schedules are not being approved by the location cabinet member, hours worked in the adjusted schedules are not being monitored, four instances where substitute pay was paid but no personal time was taken (this was subsequently corrected by taking personal leave), and six instances where no adjusted work schedule had been prepared.

**- Law Enforcement Academy – Cedar Valley College**

Internal Audit received a request from Cedar Valley management to conduct an audit of the student application records to the Law Enforcement Academy. This program is approved by the Texas Commission of Law Enforcement Officer Standards and Education (TCLEOSE), and must adhere to the admission rules promulgated by the commission. The Basic Licensing Enrollment Standards set by TCLEOSE require that certain cadets' documents must be on file prior to commencement of the program. The objective of the audit was to ensure that the required documentation for all cadets entering the Academy was on file prior to the start of the classes. We looked at all students in one completed class and three current classes of cadets. The audit revealed that many of the required documents were either obtained after the start of the training and/or were missing and incomplete, not only for the current classes, but for the graduated class of December 15, 2011. All cadets with missing documents were notified and given until the end of April to submit all required items. Two cadets were found to be ineligible and were dismissed.

Not complying with TCLEOSE standards could result in the termination of the program at Cedar Valley College. Management has responded that effective immediately all documents must be on file prior to being admitted into the Academy. Additionally, the Academy director will review all the program documentation given to prospective students and compare it to the TCLEOSE standards to ensure the information is current and correct as to what is required.

**- Law Enforcement Academy – Eastfield College**

After noting the findings from the Law Enforcement Academy at Cedar Valley, we decided to conduct a similar audit of the cadet files at the Eastfield College LEA. We reviewed the files of 39 students and found only one item that was submitted after the start of classes. No other deficiencies were noted. We recommended that Eastfield College LEA director share best practices with Cedar Valley LEA, if requested.

**- Texas Workforce Commission Grant – Richland College**

This was the audit of the Partnership with Manufacturing Consortium Grant awarded to Richland College by the Texas Workforce Commission. The purpose of the grant is to provide training on the implementation of lean practices in the operations of participating businesses. The March 2009 through August 2010 grant allocation was \$372,090. The audit objectives were to determine compliance with grant provisions and District policies and procedures in providing the training specified by the grant proposal, and ensure adequate documentation as to determination of tuition and tracking of capital assets purchased with grant funds. Audit recommendations were made to enhance the control and tracking of capital assets. Also, a more accurate and detailed methodology should be adopted in order to substantiate the costs components that go into the calculations of tuition rates charged for various courses. Management agreed with the recommendations and will implement the cost calculations for future grant proposals.

**- Inventory of Fixed Assets – District Wide**

This is the annual testing of the physical assets inventory performed by all District locations. A sample of assets was selected for each location to verify the physical existence of the items. The objectives were to determine the accuracy of the asset records, account for assets used off-campus, ensure the adequacy of documentation of surplus assets, and ensure the environment in which the assets are maintained was as secure as possible. No exceptions were noted.

**- Financial Aid – Verification Process – Global Contracted Services**

In 2011, the District entered into an agreement with Global to outsource certain aspects of the financial aid verification process. Global receives students' ISIRs (Institutional Student Information Records) from the District's student information system to initiate the file review and verification. Global charges the District for each original file reviewed and for subsequent files needing verification. The audit objectives were to ensure the security of student information sent to Global, verify the reconciliation of ISIRs billed to ISIRs processed, and ensure access to the system was limited to assigned job responsibilities. Two findings were reported to management. First, a reconciliation process needs to be implemented to reconcile the number of items processed by Global to the items billed the District. Second, access to the

Audit Committee Report  
June 7, 2012  
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system needs to be monitored and adjusted as necessary. Some access has already been removed.

### **AUDITS IN PROGRESS**

- Cash Reconciliations
- Blanket Purchase Orders
- Travel Expenses

cc Wright Lassiter  
Ed DesPlas

**TO:** Audit Committee of the Board of Trustees

**FROM:** Rafael J. Godinez, CPA

**DATE:** September 5, 2012

**RE:** Quarterly Summary of Activities  
For the 4<sup>th</sup> Quarter Ended August 31, 2012

The following is a summary of activities by the DCCCD Internal Audit Department since the Audit Committee meeting of April 3, 2012.

**AUDITS COMPLETED – Reports Issued**

**- Cash Reconciliations – District Wide**

The purpose of the audit was to determine compliance with Business Office Procedures for the daily reconciliation of cash and to ensure that controls over cash handling are operating effectively. In addition, we conducted an inventory of the safes to ensure that contents were properly safeguarded. No exceptions were noted.

**- Blanket Purchase Orders – District Wide**

Blanket purchase orders (BPO) are agreements with vendors through which series of orders are issued when goods are needed. BPOs are valid only for the fiscal year in which they are issued. A sample of 25 BPOs was selected for testing from the BPOs issued during the period of September 2011 through January 2012. The objective of the audit was to determine that BPOs were properly authorized and set up on the Colleague system, and expenditures were within the established budgeted amounts in accordance with guidelines stated in the Business Office Procedures. No exceptions were noted.

**- Travel Expenses – District Wide**

A sample of travel expenses for the period of September 2011 through March 2012 was selected for testing for compliance with Board Policy and Business Office Procedures. The sample included travel expenses incurred by Board members, District and College management, as well as administrators and support staff. All supporting documentation was examined for accuracy of amounts and appropriateness. The travel advance receivable balance was also reviewed to ensure that advances are being reconciled on a timely basis. No exceptions were noted.



**- District Investments**

Board Policy pertaining to the District's investments in financial instruments specifies the types of investments that can be made for both long-term and short-term strategies. The District Investment Analyst is responsible for all aspects of the District's investment portfolio. The objective of the audit was to ensure that controls pertaining to the treasury function are operating effectively to ensure the proper safeguard of District funds. Transactions were tested for compliance with established procedures as to authorization, and to ensure the accuracy of recording and reporting. No exceptions were noted.

**- Veterans Administration Benefits – Mountain View College**

This was an investigation requested by College management pertaining to discrepancies in certifications made by the Veterans Affairs (VA) Coordinator in violation of federal regulations. The VA Coordinator, who is also a veteran and a student, was certifying his own enrollment using the access code assigned to the Vice President of Student Services. Once his own access code was granted, the VA Coordinator continued to verify his own enrollment. We also found the he had certified fictitious courses in order to maintain the proper enrollment level. The employee has been terminated and all information has been provided to the VA Office in Waco, TX. No follow-up information has been received from the VA as to any additional information or steps to be taken at this time.

**- Athletic Fields Rentals – Mountain View College**

This was an investigation requested by College management pertaining to allegations brought by an outside party as to cash payments made to employees of the college for the rental of soccer fields and stadium without a contract as required by procedures. Working in conjunction with the College Police Department, statements were obtained from four individuals who witnessed the exchange of cash. Subsequently, we interviewed the College's soccer coach, his wife, and the Athletic Director. The two employees ultimately admitted receiving the cash and not depositing the funds with the College Business Office. The employees have been terminated.

cc Wright Lassiter  
Ed DesPlas

**DALLAS COUNTY COMMUNITY COLLEGE DISTRICT**  
**Internal Audit Department**  
**Plan for the Year Ending August 31, 2013**

| <u>Audit Staff</u> | <u>Degree/<br/>Certification</u> | <u>Title</u>     | <u>Starting<br/>Date</u> |
|--------------------|----------------------------------|------------------|--------------------------|
| Godinez, Rafael    | BBA, CPA                         | Director         | June 1988                |
| Archer, Anthony    | BBA, CFE                         | Auditor II       | April 1999               |
| Styvoky, Paul      | BS, CISA, ITIL                   | IT Auditor       | August 2010              |
| Hsu, Helen         | BS                               | Auditor I        | August 2012              |
| Jackson, Carla     | MS, BBA                          | Grant Compliance | July 2012                |

**Planned Audit Days**

|                                 |            |      |
|---------------------------------|------------|------|
| Total Available Days            | 1,300      | 100% |
| Less Non-Audit Days:            |            |      |
| Vacation                        | 81         | 6%   |
| Holidays                        | 95         | 7%   |
| Sick Days                       | 60         | 5%   |
| Other                           | 40         | 3%   |
| Supervision &<br>Administration | <u>195</u> | 15%  |
| Total Non-Audit Days            | <u>471</u> | 36%  |
| Net Audit Days Available        | 829        | 64%  |
| Grant Compliance Monitoring     | 207        |      |
| Reserved for Special Requests   | <u>27</u>  | 2%   |
| Net Planned Audit Days          | <u>595</u> | 46%  |

## Planned Audit

| <u>Audit<br/>Number</u> | <u>Description</u>  | <u>Estimated<br/>Man-days</u>    |
|-------------------------|---|----------------------------------|
| 2013-01                 | ASSISTANCE TO MCCONNELL & JONES LLP<br>Audits in conjunction with the financial<br>and A-133 reviews.<br>- Federal Programs/Financial Aid<br>- Disbursement: General<br>- Disbursement: Payroll<br>- Other Requests | <br><br><br>20<br>10<br>10<br>10 |
| 2013-02                 | FOLLOW-UP ON PREVIOUS AUDITS<br>Review status of implementation of prior<br>audit recommendations.  | <br>15                           |
| 2013-03                 | CASH AND IMPREST FUNDS<br>Review and test controls over cash on<br>hand accounts and compliance with<br>business procedures.  | <br>10                           |
| 2013-04                 | PHYSICAL ASSETS INVENTORY OBSERVATION<br>Observe and test physical inventory and<br>procedures pertaining to changes in<br>inventory records.   | <br>30                           |
| 2013-05                 | EMPLOYEE TRAVEL EXPENSES<br>Audit of travel expense reports for<br>compliance with District policies.   | <br>25                           |
| 2013-06                 | RICHLAND COLLEGIATE HIGH SCHOOL<br>Audit for compliance with Texas<br>Education Agency attendance verification<br>requirements.   | <br>20                           |
| 2013-07                 | CASHIERING FUNCTION CONTROLS<br>Audit for compliance with business office<br>procedures over cashiering activities.   | <br>30                           |

| <u>Audit Number</u> | <u>Description</u>  | <u>Estimated Man-days</u> |
|---------------------|---|---------------------------|
| 2013-08             | VETERINARY TECHNOLOGY - CEDAR VALLEY<br>Audit of compliance with the handling and storage of control substances used in the program.  | 30                        |
| 2013-09             | POLICE OFFICERS' CONTINUING EDUCATION<br>Audit for compliance with TCLEOSE training mandates for licensed peace officers              | 30                        |
| 2013-10             | LAW ENFORCEMENT ACADEMY - CEDAR VALLEY<br>Audit of operations of the academy for compliance with TCLEOSE regulations.                 | 30                        |
| 2013-11             | STUDENT & EXCHANGE VISITOR PROGRAM<br>Audit for compliance with Federal rules and regulations pertaining to foreign students.         | 35                        |
| 2013-12             | SMALL BUSINESS DEVELOPMENT CENTER<br>Audit of the regional SBDC for compliance with OMB regulations.                                  | 30                        |
| 2013-13             | ACCOUNTS RECEIVABLE<br>Audit of account receivable balances for compliance with business office procedures.                           | 35                        |
| 2013-14             | NON-TEACHING EXTRA SERVICE CONTRACTS<br>Audit of contracts for compliance with Board policies and procedures.                         | 30                        |
| 2013-15             | INFORMATION TECHNOLOGY GENERAL CONTROLS<br>Audit of general controls and environment of information technology operations department. | 30                        |

| <u>Audit<br/>Number</u> | <u>Description</u>   | <u>Estimated<br/>Man-days</u> |
|-------------------------|--|-------------------------------|
| 2013-16                 | APPLICATION CONTROLS - GENERAL LEDGER<br>Audit of controls in the Colleague general ledger application module.                     | 20                            |
| 2013-17                 | APPLICATION CONTROLS - FIXED ASSETS<br>Audit of controls in the Colleague fixed assets application module.                         | 20                            |
| 2013-18                 | GASOLINE CREDIT CARD UTILIZATION<br>Audit for compliance and controls over the utilization of gasoline credit cards district wide. | 30                            |
| 2013-19                 | BLANKET PURCHASE ORDERS<br>Audit of purchases made from Home Depot, Lowe's and Staples by all District locations.                  | 30                            |
| 2013-20                 | FACILITIES RENTAL CONTROLS<br>Audit of controls over the process for renting of college athletic fields and facilities.            | 35                            |
| 2013-21                 | SUPPLEMENTAL TUITION FOR REPEATS<br>Audit for compliance with policies pertaining to charging supplemental tuition for repeaters.  | 30                            |
|                         |  | 595                           |

### Approval of Brokers-Dealers

The chancellor recommends that the Board of Trustees approve the attached list of broker-dealers, as provided by Board Policy CAK (LEGAL), which states: *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.*

Note: (LEGAL) denotes the subject is regulated by federal or state authority. (LOCAL) denotes a policy that DCCCD's Board of Trustees has adopted and may amend or eliminate at its discretion.

## **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.

**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. TexSTAR maintains a Standard & Poor's AAAM rating.

**TexSTAR LOGIC:** TexSTAR's Local Government Investment Cooperative (LOGIC) is managed by JP Morgan Chase and First Southwest Asset Management, Inc. in compliance with the Texas Public Funds Investment Act. LOGIC carries Standard & Poor's AAAM rating. In addition to investing in U.S. Treasury and Agency Securities, LOGIC provides additional diversification by investing in repurchase agreements and prime commercial paper.

**LONE STAR Investment Pool:** The Lone Star Investment Pool was created pursuant to Texas Government Code, Chapter 791, and the Public Funds Investment Act, Chapter 2256. Lone Star maintains Standard & Poor's AAA rating. The pool only holds investments authorized under the PFIA. Lone Star's Government Overnight Fund offers safety of principal, daily liquidity and competitive rates of return.

## **BROKERS-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/dealers: 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 National Association of Security Dealers. 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, 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.

**Gilford Securities Incorporated:** Founded in 1979, Gilford Securities is an investment boutique that offers T-Bills, U.S. Treasury Notes, Municipal Bonds and Agency securities. Headquartered in Irvine, California, Gilford's trade volume in U.S. Government and Agency securities was approximately \$5 billion in 2011.

**Multi-Bank Securities, Inc.:** Founded in 1987, Multi-Bank Securities is an investment fixed-income securities dealer that offers Bank CDs, U.S. Agency securities, U.S. Treasury Notes and T-Bills. Headquartered in Southfield, Michigan, MBS's trade volume in U.S. Government and Agency securities was approximately \$3.8 billion in 2011.

**Great Pacific Securities:** Founded in 1990, Great Pacific is a secondary dealer of U.S. Treasury Notes and T-Bills, and is an underwriter for FHMLC, FHLB and Farmer Mac. Headquartered in Costa Mesa, California, GPS's trade volume in U.S. Government and Agency securities was approximately \$29 billion in 2011.

## REPORT FROM INVESTMENT OFFICERS ON TRAINING

### Board Members (1)

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> |
|----------------|----------------------|---------------|
| Wesley Jameson | July 15, 2012        | THECB Video   |

### Investment Officers (1)

Board Policy CAK (LOCAL) provides: *The investment officer shall attend a training session during the state's biennium and may receive training from any independent source approved by the Board.*

One officer will need to take training before the expiration date.

| <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<br>Center for Public<br>Management |

### Investment Staff (0)

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> |
|-------------|----------------------|------------------------|---------------|
| None        |                      |                        |               |

Approval of Resolution Reflecting Review and Revisions to Investment Policy

It is recommended that the Board of Trustees adopt the attached resolution, which affirms the Board’s review of the Board’s investment policy and strategies and amends that policy [CAK (LOCAL)] only as follows.

Effective date: October 2, 2012

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 2, 2012. Trustees who serve on the Audit Committee are Mr. Bob Ferguson, (chair), Ms. Charletta Compton and Mr. Sonny Williams.

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 College, and Richland College.

#### AUTHORIZED INVESTMENTS INSTRUMENTS

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.
10. Commercial Paper with a maximum maturity of 181 days, rated A1/P1 by a nationally recognized rating agency.

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 AND RATING  
CHANGES**

In accordance with Government Code 2256(b), t(F)he investment officer shall monitor investments acquired with public funds for market prices and 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 as well as using nationally recognized rating agencies. The investment officer

shall keep the Board informed of significant changes in ratings and/or 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.

The investment officer shall take all prudent measures that are consistent with its investment policy to liquidate an investment if the investment:

1. does not have a minimum rating; or
2. significantly changes its rating or declines in market value.

## 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%        |
| 7. | <u>Commercial Paper with a maximum maturity of 181 days, rated A1/P1 by a nationally recognized rating agency and not more than 5% in any single issuer.</u> | <u>15%</u> |

\*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 INVESTMENTS 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 associate 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 and may receive training from any independent source approved by the Board. The investment officer may also require other staff to



complete investment training during each state fiscal biennium. 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.

#### ADMINISTRATION OF INVESTMENTS

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.”

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 2, 2012, reviewed the Board's investment policy and strategies;

WHEREAS, the Audit Committee further recommended certain changes to CAK (LOCAL) as delineated in the Board of Trustees agenda at its October 2, 2012 meeting; and

WHEREAS, the Audit Committee's review and recommendation was considered by the Board of Trustees at its regular meeting on October 2, 2012;

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

Adopted: October 2, 2012