

# Texas Local Government Investment Pool Prime

Report to the Honorable Glenn Hegar  
November 5, 2019





November 5, 2019

To the Honorable Glenn Hegar  
Comptroller of Public Accounts of the State of Texas  
Texas Local Government Investment Pool Prime  
Austin, Texas

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Attention: Mr. Hegar

We are pleased to present this report related to our audit of the financial statements of Texas Local Government Investment Pool Prime (TexPool Prime) as of and for the year ended August 31, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for TexPool Prime's financial reporting process.

This report is intended solely for the information and use of the Comptroller of Public Accounts of the State of Texas, management of TexPool Prime and the State Auditor of Texas and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to Texas Local Government Investment Pool Prime.

*RSM US LLP*

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## Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

Area	Comments
<b>Our Responsibilities With Regard to the Financial Statement Audit</b>	Our responsibilities under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> issued by the Comptroller General of the United States have been described to you in our arrangement letter dated June 4, 2019. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	We have issued a separate communication, dated June 4, 2019, addressed to Mr. Paul Ballard, CEO of Texas Treasury Safekeeping Trust Company, regarding the planned scope and timing of our audit and have discussed with him our identification of significant risks of material misstatement.  As described in Note 1 to the financial statements, the financial statements present only the TexPool Prime investment trust fund and do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2019, and the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion was not modified with respect to this matter.
<b>Accounting Policies and Practices</b>	<b>Preferability of Accounting Policies and Practices</b> Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.  <b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by TexPool Prime. A summary of the significant accounting policies adopted by TexPool Prime is included in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended August 31, 2019.
	<b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Area	Comments
<b>Accounting Policies and Practices (continued)</b>	<b>Management’s Judgments and Accounting Estimates</b> Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.
<b>Audit Adjustments</b>	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
<b>Uncorrected Misstatements</b>	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
<b>Disagreements With Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management’s judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed With Management</b>	No significant issues arising from the audit were discussed or the subject of correspondence with management.
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards</b>	We have separately issued a Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> , which is included in TexPool Prime’s Annual Financial Report.
<b>Significant Written Communications Between Management and Our Firm</b>	Copies of significant written communications between our firm and management of TexPool Prime, including the representation letters provided to us by management, are attached as Exhibit A.

## Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses its knowledge and experience about past and current events, and certain assumptions about future events. Management may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in TexPool Prime's August 31, 2019, financial statements.

<u>Estimate</u>	<u>Accounting Policy</u>	<u>Management's Estimation Process</u>	<u>Basis for Our Conclusions on Reasonableness of Estimate</u>
<b>Fair Value of Investments</b>	<p>TexPool Prime meets the criteria of Governmental Accounting Standards Board Statement No. 79, <i>Certain External Investment Pools and Pool Participants</i>, and as such, measures investments at amortized cost. However, the fair value of investments is required to be disclosed in the notes to the financial statements.</p> <p>Investments are priced daily by the custodian and fair values are compared to carrying values. Because the pool's goal is to maintain a net asset value (NAV) of \$1.00, if the ratio is less than 0.995 or greater than 1.005, TexPool Prime will sell investment securities, as required, to maintain the ratio at a point between 0.995 and 1.005.</p>	<p>The fair value of mutual funds is determined using the NAV as reported by the fund and is classified as Level 1 of the fair value hierarchy.</p> <p>Debt securities and repurchase agreements classified as Level 2 of the fair value hierarchy are valued using other observable significant inputs, including but not limited to, quoted prices for similar securities, interest rates and a fixed-income pricing model.</p>	<p>We tested the fair value of the investments by verifying the NAV or fair value with published sources. We concluded the valuation methods and estimates are reasonable.</p>

**Exhibit A—Significant Written Communications Between Management and Our Firm**



November 5, 2019

RSM US LLP  
811 Barton Springs Road, Suite 500  
Austin, Texas 78704

This representation letter is provided in connection with your audit of the basic financial statements of Texas Local Government Investment Pool Prime (TexPool Prime) as of and for the years ended August 31, 2019 and 2018 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of the date of this letter:

#### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated June 4, 2019, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party relationships and transactions have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. There are no events subsequent to the date of the financial statements for which U.S. GAAP requires adjustment or disclosure.
7. There are no effects of known actual or possible litigation and claims to be accounted for and disclosed in accordance with U.S. GAAP.
8. The following have been properly recorded and/or disclosed in the financial statements:
  - a. Net position held in trust for pool participants.
  - b. The fair value of investments.



- c. All significant estimates and investment concentrations exceeding 5% known to management which are required to be disclosed.
  - d. Deposits and investment securities categories of risk.
9. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private.
10. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
11. We have no knowledge of any uncorrected misstatements in the financial statements.

**Information Provided**

12. We have provided you with:
- a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
  - b. Additional information that you have requested from us for the purpose of the audits;
  - c. Unrestricted access to persons within TexPool Prime from whom you determined it necessary to obtain audit evidence; and
  - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All transactions have been recorded in the accounting records and are reflected in the financial statements.
14. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
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15. We have no knowledge of any allegations of fraud or suspected fraud affecting TexPool Prime's financial statements involving:
- a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
16. We have no knowledge of any allegations of fraud or suspected fraud affecting TexPool Prime's financial statements received in communications from employees, former employees, analysts, regulators, or others.

17. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations affecting TexPool Prime's financial statements.
18. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
19. We have disclosed to you the identity of TexPool Prime's related parties and all the related-party relationships and transactions of which we are aware.
20. We are aware of no significant deficiencies or material weaknesses in the design or operation of internal controls that could adversely affect TexPool Prime's ability to record, process, summarize and report financial data.
21. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
22. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.
23. The Texas Trust charges a management fee for basic services provided to participants. As of August 31, 2019, the fee was 5.5 basis points. Federated earns 5.0 basis points as their management fee and the Texas Trust earns 0.5 basis points as its administrative fee. There are no other fees associated with operating the pool.

#### **Supplementary Information**

24. With respect to Management's Discussion and Analysis as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
  - a. We acknowledge our responsibility for the presentation of such required supplementary information.
  - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
- c. The methods of measurement or presentation have not changed from those used in the prior period.

#### **Compliance Considerations**


In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that management:

25. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
26. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the auditee.
27. There are no instances that have occurred, or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial

statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

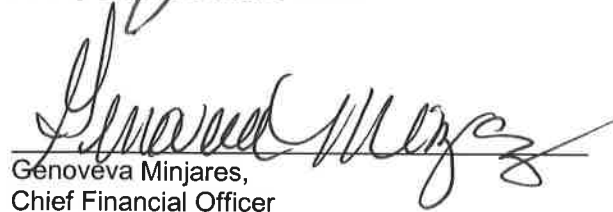
28. There are no instances that have occurred, or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.
29. There are no instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements.
30. Is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
31. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
32. Has taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts and grant agreements; or abuse that the auditor reports, if any.
33. Has a process to track the status of audit findings and recommendations.
34. Has identified for the auditor previous audits, attestation engagements and other studies related to the audit objectives and whether related recommendations have been implemented.
35. Has provided views on the auditor's reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report, if any.
36. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services

Texas Local Government Investment Pool Prime



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Mike Reissig  
Acting Chief Executive Officer



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Genoveva Minjares,  
Chief Financial Officer

  
**TEXAS TRUST**  
TEXAS TREASURY SAFEKEEPING TRUST COMPANY  
COMPTROLLER GLENN HEGAR, CHAIRMAN

November 5, 2019

RSM US LLP  
811 Barton Springs Road, Suite 500  
Austin, Texas 78704


In connection with your examination of the assertion that Texas Local Government Investment Pool Prime (TexPool Prime) complied with its Investment Policy and Public Funds Investment Act as of August 31, 2019, in accordance with attestation standards established by the American Institute of Certified Public Accountants, we confirm, to the best of our knowledge and belief, the following representations made to you during the course of your engagement:

1. Management of the Texas Treasury Safekeeping Trust Company is responsible for its assertion that TexPool Prime complied with its Investment Policy and the Public Funds Investment Act as of August 31, 2019. Management asserts that TexPool Prime did comply with its Investment Policy and the Public Funds Investment Act as of August 31, 2019.
2. We understand that we are responsible for the selection of the criteria against which TexPool Prime's compliance with its Investment Policy and the Public Funds Investment Act as of August 31, 2019 is being evaluated.
3. We understand that we are responsible for determining that such criteria are appropriate for our purposes.
4. There are no known matters contradicting the assertion nor any communications from regulatory agencies affecting the assertion or the subject matter.
5. We have made available to you all records relevant to compliance as of August 31, 2019 with the Investment Policy dated August 2018 and the Public Funds Investment Act.
6. No events or transactions have occurred subsequent to August 31, 2019 that would require adjustment to, or disclosure in, the presentation of compliance as of August 31, 2019 with the Investment Policy dated August 2018 and the Public Funds Investment Act.
7. There has been no knowledge of fraud or suspected fraud affecting the entity involving:
  - a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where fraud could have a material effect on TexPool Prime's compliance with the Investment Policy dated August 2018 and the Public Funds Investment Act.
8. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting TexPool Prime received in communications from employees, former employees, analysts, regulators, or others.

10. We have responded fully to all inquiries made to us by you during your engagement.
11. We are responsible for the fair presentation of the subject matter prepared in conformity with the requirements of the Comptroller's Office.
12. We have advised you of all actions taken at meetings of the TexPool Prime Advisory Board and the Investment Advisory Board that may affect the subject matter.
13. We are responsible for establishing and maintaining effective internal control over compliance.
14. We are responsible for the interpretation of any compliance requirements that may have varying interpretations.
15. We have reviewed a draft of your report dated November 5, 2019, and we are not aware of any significant errors or misstatements contained in that report.
16. No procedures have been performed since the date of your report and you have no responsibility to update your procedures.
17. There has not been any noncompliance discovered by us subsequent to August 31, 2019.
18. We have complied with all aspects of contractual agreements that would have a material effect on the subject matter or the assertion in the event of noncompliance.
19. There are no material transactions that have not been properly recorded as part of the subject matter or the assertion.
20. During the course of your engagement, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Texas Local Government Investment Pool Prime

  
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Mike Reissig,  
Acting Chief Executive Officer  
Texas Treasury Safekeeping Trust Co.

  
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Genoveva Minjares,  
Chief Financial Officer,  
Texas Treasury Safekeeping Trust Co.

