



UNT SYSTEMTM

Office of Internal Audit

Public Funds Investment Act

Internal Audit Report

22-007 WORLD

December 20, 2021

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Executive Summary

<p>Audit Objective:</p> <p>The objective of the Investments audit is to assess the risk management framework, controls, and governance that support the achievement of the following business outcome: Investing activities are effective and efficient with:</p> <ul style="list-style-type: none">• UNT System Regulation 08.2000, Investment of System Funds;• UNT System Regents Rule 10.100, Investments; and• State Auditor’s Office (SAO) Higher Education Institution Investment Reporting Requirements in accordance with Article III, Section 6, Rider 5.
<p>Conclusion:</p> <p>Based on testing performed, Internal Audit concludes that the risk management framework, controls, and governance support the achievement of this business outcome.</p>
<p>Observations by Risk Level:</p> <p>There were no reportable observations noted during the course of this review.</p>

Engagement Team

Ryan Knight, Auditor-in-Charge
Sheba Joyner, Senior Director of Internal Audit

We appreciate the courtesies and considerations extended to us from the management and staff in Treasury during our engagement. Please let me know if you have any questions or comments regarding this audit. For more information, contact us by email at internalaudit@untsystem.edu or by phone at 940.565.2153.

Ninette Caruso
Chief Audit Executive

Background

The Treasury area is responsible for all aspects of investment, banking, and debt management for UNT System. The investment management objective for UNT System is to retain appropriate liquidity to meet daily operating demands while seeking a higher yield on cash and investment reserves through an appropriately diversified investment portfolio. The ending market value of the consolidated UNT System investment portfolio totaled approximately \$972 million as of the end of FY2021.

Scope, Objectives, and Methodology

UNT System Internal Audit completed an audit of Investments for UNT WORLD. This audit is part of the Board of Regents approved FY2022 audit plan. The scope of this audit was primarily FY2021, although certain procedures required review of the prior fiscal year and the current FY2022 fiscal year.

Specific audit objectives determined whether investing activities were effective and efficient with:

- UNT System Regulation 08.2000, Investment of System Funds;
- UNT System Regents Rule 10.100, Investments; and
- State Auditor's Office (SAO) Higher Education Institution Investment Reporting Requirements in accordance with Article III, Section 6, Rider 5.

To satisfy our objectives, we performed the following:

- Reviewed the following documentation:
 - Relevant policies, procedures, regulatory requirements, and contractual agreements;
 - Quarterly and annual investment reports; and
 - Investment websites for UNT System, UNT, UNT Dallas, and UNTHSC.
- Verified that approved brokers/dealers submitted signed certification of having read and understood the investment rules, regulations, and policies applicable to the System and agreement to comply with those rules, regulations, and policies;
- Verified that UNT System Investment Advisory Committee members completed annual conflict of interest forms;
- Verified that UNT System Investment Advisory Committee members and new Board of Regents members completed investment training;
- Verified timely submission of the Annual Tracking Report to the State Auditor's Office.
- Conducted interviews with appropriate Treasury personnel;
- Recalculated bank account collateral percentage and Long-Term Pool spending rate; and
- Tested end of year investment balances in the Q4 FY2021 investment quarterly report for accuracy.

We conducted our examination in conformance with the Texas Internal Auditing Act in conformance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. The *Standards* are statements of core requirements for the professional practice of internal auditing.

Appendix A: Definition of Risks

Audit observations are ranked according to the following definitions. Internal Audit will perform follow-up procedures to confirm that audit recommendations have been implemented.

Risk Definition - The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.	Degree of Risk and Priority of Action	
	Critical	An issue identified by internal audit that, if not addressed <u>immediately</u> , has a high probability to directly impact achievement of a strategic or important operational objective of a UNT institution or the UNT System as a whole.
	High	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to the Institution’s operations. Without appropriate controls, the risk will happen on a consistent basis.
	Medium	The risks are considered to be undesirable and could moderately expose the Institution. Without appropriate controls, the risk will occur some of the time.
	Low**	Low probability of various risk factors occurring. Even with no controls, the exposure to the Institution will be minimal.

** Observations rated “low” are presented in a letter to management and not included in this audit report.

Appendix B: Report Distribution

UNT System Board of Regents
Lesa Roe, Chancellor, UNT System
Michael Williams, President, UNTHSC
Neal Smatresk, President, UNT
Robert Mong, President, UNT Dallas
Dan Tenney, Executive Vice Chancellor & CFO, UNT System
Clayton Gibson, Vice President for Finance & Administration & CFO, UNT
Greg Anderson, Executive Vice President & CFO, UNTHSC
Arthur Bradford, Executive Vice President & CFO, UNT Dallas
Tim Willette, Chief Compliance Officer, UNT System
Luke Lybrand, Associate Vice Chancellor for Treasury, UNT System
Gulnaar Murthy, Director of Treasury, UNT System
Texas State Auditor's Office
Governor's Office
Legislative Budget Board
Sunset Advisory Commission