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December 14, 2011

## THE PROJECT THAT WAS PERFORMED

Internal Audit reviewed investments and commercial paper for UNT System during the period August 2011 through October 2011. The project was part of the approved work plan and required by UNT System Policy 04.100.

The objectives of the review were to:

1. Determine whether management of investment transactions is compliant with the Public Funds Investment Act (PFIA), Regents Rule 10.100, Regents Rule 10.300, and UNT System Investment Policy 04.100;
2. Verify that Investments are adequately and appropriately inventoried and safeguarded;
3. Review the recording and reporting of investment transactions for accuracy and compliance with the PFIA and the State Higher Education Investment Reporting Requirements Report issued by the State Auditor's Office (SAO Report No. 02-058); and
4. Evaluate the commercial paper program for compliance with Regents Rule 10.100, and Regents Rule 10.300, and UNT System Investment Policy 04-100.

## KEY OBSERVATIONS

Overall, we found that UNT System Investments were safeguarded, diversified, and provided sufficient liquidity to meet the reasonable anticipated financial needs of the UNT System. UNT System is in compliance with the Public Funds Investment Act (PFIA), Regents Rule 10.100, Regents Rule 10.300, UNT System Investment Policy 04.100, and the state higher education investment reporting requirements except for two investment disclosure reporting requirements.

Internal Audit's review included the following areas with observations noted.

### Compliance

#### Substantial Compliance

- The UNT Regents Rules and investment policies were reaffirmed during the August 2011 Board of Regents meeting.
- All investments were allowable and diversified according to the requirements set forth in the PFIA, Regents Rule 10.100, and Regents Rule 10.300, and UNT System Investment Policy 04.100.
- Investment Officers attended the PFIA required training.
- The list of approved brokers was approved by the Board of Regents.

- All brokers signed a certification to follow the guidelines of the Public Funds Investment Act and UNT System Investment Policy.
- The UNT System investment disclosure web-site reviewed on October 14, 2011, referenced UNT's investment policy 11.5 versus UNT System's investment policy 04.100. Prior to issuance of this report, the System investment disclosure web-site was changed to reflect the UNT System investment policy 04.100.

### Compliance Issues

- The UNT System investment disclosure web-site does not reference nor link the Investment Audit Reports and the Annual Investment Reports for the years 2008 through 2010.
- The Investment Audit Reports for years 2003 through 2007, and the Annual Investment Reports for years 2003 through 2007 and for 2011 are referenced on the System investment disclosure web-site, but were not linked to supporting documentation.

### Inventory and Safeguarding

- All reported investments traced from the June 2011 Investment Report matched source documentation (e.g. account statements.)
- All new fiscal year 2011 investment purchases reviewed were properly recorded.
- All bank accounts had the authorized designated employee signature on file with a Wells Fargo Certificate of Authority.

### Reporting

- Internal Audit reviewed the UNT System quarterly Investment Report information presented to the Board of Regents in August 2011. This report includes investment information as of May 31, 2011, and the information reported appears reasonable and accurate.
- State reporting requirements for higher education investing have been met except for those issues noted previously under the compliance section.
- Portfolio yield was consistently greater than the yield on a US Treasury Note.



Best Practice



Internal Policy Compliance



Regulatory/Statutory Compliance

**Key Points**  
**Annual Investments/Commercial Paper Review – UNT System**  
**Audit No. 11-002 UNT System**

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**Commercial Paper**

Fiscal year 2011 commercial paper issues and rollovers are compliant with Regents Rule 10.100, Regents Rule 10.300, and UNT System Investment Policy 04.100. The following points were identified:

- Total outstanding debt was, at all times, below the Board of Regents limit of \$100 million for commercial paper indebtedness.
- The highest outstanding debt during the period tested was under \$49 million.
- The longest term of issue was 152 days within the 250 day term limit.
- All principal proceeds were recorded to the proper general ledger accounts.
- Interest was recalculated.
- Failed Remarketing Policy is in place.
- The self-liquidity requirement of \$120,000,000 has been achieved.

**SUGGESTED MANAGEMENT ACTIONS**

1. Ensure that information on the UNT System investment disclosure web-site is complete, accurately reported in a timely manner, appropriately linked to supporting documentation, and in compliance with the state higher education investment reporting requirements.
2. Contact the State Auditor's Office, if necessary, for explanation or clarification of the expected state higher education investment reporting requirements pertaining to electronic (web-site) investment disclosure reporting.

Management committed to action plans related to each suggested management action above.

Audit performed by: John McDermott, Internal Auditor III

For more information, contact us by email at [internalaudit@unt.edu](mailto:internalaudit@unt.edu) or by phone at 940.565.2153

The detailed Observations Report including management's responses and action plans is attached for your convenience.

**REPORT PROVIDED TO THE FOLLOWING:**

UNT System Board of Regents;  
L. Jackson, Chancellor;  
T. Pankratz, Vice Chancellor for Finance, UNT System;  
C. Whitlock, Manager of Treasury Services, UNT;  
D. Holdegraver, CIA, CFE, Chief Internal Auditor, UNT System;  
Texas State Auditor's Office;  
Governor's Office;  
Legislative Budget Board;  
Texas Comptroller of Public Accounts; and  
Sunset Advisory Commission.

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Observations  
with  
Management's  
Responses

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**Investments/Commercial Paper  
Audit No. 11-002 UNT System**

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**INVESTMENT DISCLOSURE WEB-SITE REPORTING**

**What We Found** *Per review by Internal Audit of the UNT System investment disclosure web-site on December 5, 2011, the following issues were noted:*

- a. The UNT System investment disclosure web-site did not reference nor link the Investment Audit Reports and the Annual Investment Reports for years 2008 through 2010.*
- b. The Investment Audit Reports for years 2003 through 2007, and the Annual Investment Reports for years 2003 through 2007 and for 2011 were referenced on the System investment disclosure web-site, but were not linked to supporting documentation.*

**Why the Issue is Important** The state higher education investment reporting requirements report (SAO Report No. 02-058) issued by the State Auditor's Office describes the investment disclosure reporting requirements. These requirements are in place to assure that an institution's investment information is adequately disclosed, and accurately presented and supported. Not having the required information on one's web-site reflects non-compliance with state higher education investment reporting requirements.

**What is Causing the Issue** Oversight

**What is Expected or Required** It is expected that an institution's investment disclosure web-site is in compliance with state higher education investment reporting requirements. These requirements pertain to providing the following: A response to required investment information questions (Chapter 1.3), posting of the institution's investment policy (chapter 1.4), reporting quarterly investment report information (chapter 2.2), posting of Investment Audit Reports and Annual Investment Reports, noting contact reference information, and etc. Rider 5, page III-231, the General Appropriations Act (77<sup>th</sup> Legislature), and the Public Funds Investment Act require institutions to report certain information regarding their investments. Rider 5 and the PFIA Act require the State Auditor's Office to prescribe the method and manner for reporting this information.

**What We Suggest** Suggested Management Action for T. Pankratz, Vice Chancellor for Finance, UNT System:

- 1. Ensure that information on the UNT System investment disclosure web-site is complete, accurately reported in a timely manner, appropriately linked to supporting documentation, and in compliance with state higher education investment reporting requirements.
- 2. Contact the State Auditor's Office, if necessary, for explanation or clarification of the expected state higher education investment reporting requirements pertaining to electronic (web-site) investment disclosure reporting.

Implementation will ensure compliance with the state higher education investment reporting requirements pertaining to investment disclosure.

**What Action Management Commits to Do** *UNT System treasury services are currently provided by staff members at UNT. UNT System staff will obtain investment disclosure information from UNT staff members and load it on the UNT System web site. UNT System will monitor services provided by UNT to ensure future disclosures are posted. Expected Implementation Date: December 2011. Individual Responsible for Implementation: Terry Pankratz, Vice Chancellor for Finance, UNT System.*

