

## PROJECT PERFORMED

Internal Audit completed an audit of fiscal year 2014 investments for UNT System. The project was part of the Board of Regents approved work plan and required by UNT System Regulation 08.2000, Investment of System Funds. The objective was to perform a compliance audit of management controls over investing activities as well as adherence with System Regulation 08.2000, UNT System Board of Regents Rule 10.100, and Public Funds Investment Act (PFIA) including State Auditor's Office (SAO) Article III, Rider 5 reporting requirements.

To accomplish the objectives, Internal Audit performed the following procedures:

- Determined whether management of investment transactions were compliant with UNT System Regulation 08.2000, Regents Rule 10.100, the PFIA, and with SAO Article III Rider 5 reporting requirements.
- Verified that investments were adequately and appropriately inventoried and safeguarded.
- Reviewed the recording and reporting of investment transactions for accuracy and the general compliance of investment reports submitted to the UNT Board of Regents.

The project was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and Generally Accepted Auditing Standards.

## KEY OBSERVATIONS AND MANAGEMENT ACTIONS

Key observations are ranked based on risk. **Red** indicates a High Risk observation, **Yellow** indicates a Moderate Risk, and **Green** indicates a Low Risk.

UNT System is generally in compliance with the PFIA, Regents Rule 10.100, and the UNT System Regulation 08.2000. In addition, UNT System is in compliance with state higher education investment reporting requirements including SAO Article III, Rider 5 requirements. Issues identified by Internal Audit are noted below.

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

### Compliance

- A revised UNT System Regulation 08.2000 was presented for Board approval and was last approved on October 16, 2014. UNT System has posted a copy of the latest approved regulation on their respective Investment Disclosure website.
- The investment portfolio was liquid, diversified, and in compliance with the provisions outlined by the PFIA and UNT System Regulation 08.2000.
- All investments in the portfolio were authorized by UNT System Regulation 08.2000.
- The Investment Officers and the Board of Regents have complied with the training requirements outlined in the PFIA.

The following compliance issue was noted:

▲ *Compliance with System Policy Requirements* – Based on Internal Audit's detail review of investment information reported for period ending May 31, 2014, the resulting recalculation of short term and long term investment percentages for UNT System based on market values were 50.6% and 49.4% respectively. These percentage investment results were not within establish Board approved investment percentage range requirements for short and long term investments.

Per UNT System policy 08.2000 the range for short term investments is to be at least 55% but not more than 75%. For long term investments the percentage range is to be at least 25% but not more than 45%.

We recommend Vice Chancellor for Finance.

1. Review the Investment of System Funds Regulation 08.2000 pertaining to short and long term investment percentages to determine if the percentage requirement ranges should be updated to reflect the potential actual investment needs of the UNT System and its institutions.

Management committed to action plan related to recommendation.

### Inventory and Safeguarding

- All reported investments traced from the May 2014 Investment Report matched source documentation (e.g. 3rd party statements).
- Employees with signature authority were properly designated and were current employees.
- Neither the Investment Officers nor designees disclosed any personal or business interest that conflicted with their official job duties related to investment activities and responsibilities.
- Bank deposits were adequately secured by pledged collateral and state or federal guaranties.
- UNT System is covered by a UNT System fully executed bank depository agreement with Wells Fargo Bank.
- A sample of wire transfers was reviewed and these transfers were authorized and approved in accordance with established procedures. In addition, the transfers were supported by Wells Fargo Bank documentation.

### Reporting

Internal Audit reviewed in detail the UNT System Quarterly Investment Report presented to the Board of Regents for period ending May 31, 2014. The information reported on this Quarterly Investment Report for UNT System was accurate and traced to supporting documentation. In addition, the other UNT System quarterly reports for FY 2014 were reviewed for reported content accuracy. No exceptions noted.

- State reporting requirements for higher education investing including PFIA and SAO Article III, Rider 5 have been met.

In fiscal year 2013, Internal Audit reported that a report of investment performance over the course of the year was not prepared by System and submitted to the Board of Regents at its first regularly scheduled board meeting following the end of the fiscal year as required by UNT System Regulation 08.2000. The condition was found again in the fiscal year 2014 audit. Vice Chancellor for Finance is addressing this issue and Internal Audit continues to follow-up on implementation.

Audit performed by: John McDermott, MBA, CIA, CFE, CICA, Senior Auditor and portions performed by Deloitte personnel.

Audit reviewed by: Steve Goodson, CIA, CISA, CCSA, CGAP, CRMA, Interim Chief Internal Auditor.

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

#### **DISTRIBUTION LIST**

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**Observation  
with  
Management's Response**

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**FY 2014 Investments Audit  
Audit No. 1505 SYS**

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**▲ Compliance with UNT System Regulation 08.2000, Investment of System Funds Short and Long Term Percentage Requirements**

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**What We Found** Based on Internal Audit's detail review of investment information reported for period ending May 31, 2014, the resulting recalculation of short term and long term investment percentages for UNT System based on market values were 50.6% and 49.4% respectively. These percentage investment results were not within establish Board approved investment percentage range requirements for short and long term investments.

Per UNT System Regulation 08.2000 the range for short term investments is to be at least 55% but not more than 75%. For long term investments the percentage range is to be at least 25% but not more than 45%.

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**Why the Issue is Important** Compliance with UNT System 08.2000 regulation requirements to meet Board approved established short and long term investment percentage range requirements.

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**What is Causing the Issue** Actual short term and long term investment activity could fluctuate based on cash needs at that time for the UNT System and/or a University institution and therefore result in an exception to established regulation percentage range requirements.

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**What is Expected or Required** UNT System Investment Regulation 08.2000 states the range for short term investments is to be at least 55% but not more than 75%. For long term investments the percentage range is to be at least 25% but not more than 45%.

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**What We Recommend** We recommend the Vice Chancellor for Finance:

1. Review the Investment of System Funds Regulation 08.2000 pertaining to short and long term investment percentages to determine if the percentage requirement ranges should be updated to reflect the potential actual investment needs of the UNT System and its institutions.

Implementation will ensure that short and long term investment percentages reflect actual investment needs and are in compliance with Board approved established investment percentage requirement ranges.

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**What Action Management Commits to Do** *Action:* Concur. System Regulation 08.2000 is already under review for potential revisions, including appropriate percentage ranges for each investment pool. In addition, the increased professional staffing in Treasury will allow for improved compliance with the current and future versions of the regulation. Review of System Regulation 08.2000 to determine if modification is needed and resulting Board Order, if so.

*Expected Implementation Date: 12/01/15*

*Individual Responsible for Implementation: James Mauldin, Associate Vice Chancellor for Treasury*

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