



Internal Audit

University of North Texas

University of North Texas  
Health Science Center at Fort Worth

University of North Texas  
Dallas Campus

**To:** Jean Bush  
Acting Senior Associate Vice President for Finance

**From:** Donald W. Holdegraver, CIA, CFE  
Chief Internal Auditor

**Date:** November 23, 2010

**Subject:** Annual Investments/Commercial Paper Review, Audit No. 10-002

Attached is the final audit report for the above audit. An executive summary is included as a quick reference to the audit results. The review was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

The respective administrators and staff personnel were given an opportunity to review the report and make revisions in matters of fact. This final report will be submitted to the Chancellor, the Board of Regents, and respective state agencies.

**Cc** UNT System Board of Regents  
L. Jackson, Chancellor  
T. Pankratz, Vice Chancellor of Finance  
V. Lane Rawlins, PhD, President  
C. Whitlock, Manager of Treasury Services





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To: Jean Bush  
Acting Senior Associate Vice President for Finance

From: Susan Edwards, CIA, CICA *Susan Edwards*  
Director of Internal Audit

Date: November 23, 2010

Subject: Annual Investments/Commercial Paper Review, Audit No. 10-002

Internal Audit reviewed investments and commercial paper for UNT and UNT System during the period of August 2010 through October 2010. The project was part of the approved work plan and required by UNT policy.

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 University Investment Policy 11.5;
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 Higher Education Investment Reporting Requirements Report issued by the State Auditor's Office; and
4. Evaluate the commercial paper program for compliance with Regents Rule 10.100, and Regents Rule 10.300, and UNT Investment Policy 11.5.

The scope of the review is detailed in the attached report.

UNT and UNT System are compliant with the Public Funds Investment Act, Regents Rules, and University investment policies. All investments were properly inventoried and safeguarded. Investments and commercial paper issues and rollovers were recorded and reported.



Internal Audit thanks you and your staff for the cooperation we received during this review.

Cc    UNT System Board of Regents  
      L. Jackson, Chancellor, UNT System  
      T. Pankratz, Vice Chancellor for Finance, UNT System  
      V. Lane Rawlins, PhD, President  
      C. Whitlock, Manager of Treasury Services  
      D. Holdegraver, CIA, CFE, Chief Internal Auditor, UNT System

## Background

University investments and issuances of commercial paper are regulated by Texas Government Code 2256, also known as the Public Funds Investment Act (PFIA), Regents Rule 10.100, Regents Rule 10.300, UNT Policy 11.5. Investments are to be safeguarded, diversified, and provide sufficient liquidity to meet the reasonable anticipated needs of the University.

Regents Rule 10.300 authorizes the Vice Chancellor for Finance to issue short-term indebtedness in an amount not to exceed \$100 million in Revenue Financing System (RFS) Commercial Paper to purchase equipment and to provide interim financing for capital projects during construction.

University Investment Policy 11.5 requires Internal Audit to perform an annual compliance review of management controls and adherence to policy. The results are to be reported to the Board of Regents and the State Auditor's Office.

## Objectives

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 University Investment Policy 11.5;
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 Higher Education Investment Reporting Requirements Report issued by the State Auditor's Office; and
4. Evaluate the commercial paper program for compliance with Regents Rule 10.100, and Regents Rule 10.300, and UNT Investment Policy 11.5.

## Scope

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

- Interviewed key personnel;
- Reviewed and evaluated documentation; and
- Sampled and tested investments for accuracy of information reported in the corresponding UNT and System Investment Report for the month of June 2010.

# Observations

## **Compliance**

UNT and UNT System are compliant with the Public Funds Investment Act (PFIA), Regents Rules, and University investment policies. Specific observations include:

- The UNT and System Regents Rules and investment policies were reaffirmed as of August 2010 as disclosed on the UNT Investment Disclosure website.
- 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 University Investment Policy 11.5.
- 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 Investment Policy.

## **Inventory and Safeguarding**

All investments were found to be properly inventoried and safeguarded, with the following conclusions:

- All reported investments traced from the June 2010 Investment Report matched source documentation (e.g. safeguarding/trade confirmations, trade tickets, and safekeeping statements).
- All new fiscal year 2010 investment purchases were properly recorded.
- All bank accounts had the authorized designated employee signature on file with a Wells Fargo Certificate of Authority.
- Pledged collateral secured all bank deposits in an amount which exceeded the requirement for compliance with policy and law.
- Wire transfers were handled according to documented procedures during the sample month of June 2010.

## **Reporting**

- Accurate information was reported for the sample period evaluated, June 2010.
- State reporting requirements for higher education investing have been met.
- Portfolio yield was consistently greater than the yield on a US Treasury Note.

## **Commercial Paper**

Fiscal year 2010 commercial paper issues and rollovers are compliant with Regents Rule 10.100, Regents Rule 10.300, and UNT Investment Policy 11.5. 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 \$13 million.
- The longest term of issue was 107 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.

## **Conclusion**

Investments were safeguarded, diversified, and provided sufficient liquidity to meet the reasonable anticipated financial needs of the University. Both UNT and UNT System are in compliance with the Public Funds Investment Act (PFIA), Regents Rule 10.100, Regents Rule 10.300, and University Investment Policy 11.5.

As of July 22, 2010, Moody's Investors Service published the University of North Texas System's long-term rating as Aa2 and affirms P-1 commercial paper rating. An Aa2 rating is considered a high grade bond, and further supports the strength of management and operations of UNT investments.