

PROJECT PERFORMED

Internal Audit performed the Annual Investments and Commercial Paper Audit for the UNT System, UNT, and UNT Dallas. This was part of the approved annual work plan. The period audited was fiscal year 2012.

The objective was to:

- Determine that investments were managed in compliance with the Public Funds Investment Act (PFIA), Regents Rules 10.1 Investments, UNT System Administrative Policy 4.1, UNT Investment Policy 11.5, and UNT Dallas Investment Policy 10.07;
- Verify that investments are adequately and appropriately inventoried and safeguarded;
- Perform a review of the recording and reporting of investment transactions for accuracy and general compliance of investment reports submitted to the UNT Board of Regents; and
- Evaluate UNT System's issuance and management of commercial paper for compliance with Regents Rules 10.3. The UNT System is responsible for the issuance and management of commercial paper for all UNT System Institutions.

Results from procedures performed are provided as follows:

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.

Fiscal year 2012 was a transition year for the UNT System, UNT and UNT Dallas investment decision process. On October 28, 2011, Texas Attorney General, Greg Abbott issued Opinion No. GA-0892. This allowed the UNT System Board of Regents to invest as authorized by Section 51.0031 (c) "prudent person standard" of the Texas Education Code. This opinion released the obligation to follow the PFIA conservative investment programs of the TexStar, Texas Term Daily, and TexPool.

Additionally, due to Opinion No. GA-0892 a new investment strategy was conceived by the then Vice Chancellor for Finance to create a Long Term Investment Pool. This new investment strategy was approved by the Board of Regents at the February 2012 Quarterly Meeting. The first deposits into the Long Term Investment Pool were recorded during the last week of March 2012.

Results from procedures performed are provided as follows:

Safeguarding

- Reviewed and verified that signature authority on all bank accounts is documented and current.
- Reviewed, compared, and verified the accuracy of investments in the May 31, 2012 report.
- Reviewed and verified that investments are adequately and appropriately inventoried and safeguarded.

Recording and Reporting

- Reviewed and verified the recording, reporting, and accuracy of investments submitted to the UNT Board of Regents in August 2012 meeting.
- Reviewed and verified the procedures for wire transfers were appropriately completed.
- Reviewed and verified that all other reports conveyed accurate totals and percentages.

Commercial Paper

- Reviewed and verified that the total commercial paper issued did not exceed \$100 million at any time.
- Reviewed and verified that commercial paper is issued for terms less than 207 days.
- Reviewed and verified that a Failed Remarketing Policy is in place to cover losses up to \$100 million.

Compliance

- Reviewed and verified compliance with University Investments Policy 11.5, Regents Rules 10.100, Regents Rules 10.300 and the PFIA.
- Reviewed and verified that all investments were authorized by policy.
- Reviewed and verified that investments were in compliance with the recommended ratings.
- Reviewed and verified the Regents and Investment Officers completed the required PFIA training.
- Reviewed and verified that UNT was in compliance with the requirements set for brokers/dealers.

Compliance Issue

- ▲ The UNT System and UNT Dallas did not maintain a yield equal to or greater than the yield on a Treasury Note as required by UNT System Investment Policy 04.100 and UNT Dallas Investment Policy 10.007.

UNT SYSTEM SHOULD CONSIDER

1. Reviewing the Investment yields and re-balancing the investments to comply with UNT System Investment Policy 04.100, Objective 6.

UNT DALLAS SHOULD CONSIDER

2. Reviewing the Investment yields and re-balancing the investments to comply with UNT Dallas Investment Policy 10.007, Objective 6.

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

Audit performed by: W. Alfred Winder II, CFE, Auditor II

For more information, contact us by email at internalaudit@untsystem.edu or by phone at 940.565.2153.

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**Observations
with
Management's Responses**

**Annual Investments/Commercial Paper
Audit No. 12-002 SYS**

▲ Non-Compliance with Yield Percentages of Investment Policy

What We Found	<p>The UNT System and UNT Dallas did not maintain a yield equal to or greater than the yield on a Treasury Note as required by UNT System Investment Policy 04.100 and UNT Dallas Investment Policy 10.007.</p> <p>The UNT System investment strategy was transitioned to move towards long-term investing during fiscal year 2012. This was initiated by the then Vice Chancellor for Finance as approved by the UNT Board of Regents.</p>
Why the Issue is Important	<p>UNT System is in non-compliance with UNT System Investment Policy 04.100, Objective 6 and UNT Dallas is in non-compliance with UNT Dallas Investment Policy 10.007, Objective 6.</p>
What is Causing the Issue	<p>The conversion strategy adopted by the then Vice Chancellor for Finance was to transition to long term securities. During this period the Manager of Treasury Services was only permitted to invest in the three Governmental Pools. These are the Texas Term Daily, TexStar, and TexPool. Interest rates earned by these pools are typically below the Treasury note yield.</p>
What is Expected or Required	<p>UNT System Investment Policy 04.100, Objective 6, states, "Maintain a yield equal to or greater than the yield on a Treasury Note that has a maturity approximately equal to the average maturity of the System's investments."</p> <p>UNT Dallas Investment Policy 10.007, Objective 6, states "Maintain a yield equal to or greater than the yield on a Treasury Note that has a maturity approximately equal to the average maturity of UNT Dallas investments."</p>
What We Suggest	<p>Suggested Management Action for Vice Chancellor for Administration and Chief of staff:</p> <ol style="list-style-type: none"> 1. Reviewing the Investment yields and re-balancing the investments to comply with UNT System Investment Policy 04.100, Objective 6; and <p>Suggested Management Action for the Vice President for Finance and Administration/CFO – UNT Dallas</p> <ol style="list-style-type: none"> 2. Reviewing the Investment yields and re-balancing the investments to comply with UNT Dallas Investment Policy 10.007, Objective 6. <p>Implementation will provide assurance that the UNT System will be in compliance with their Investment Policy.</p>
What Action Management Commits to Do	<p><i>Investment yields have been and continue to be at historically low levels. We do not anticipate that this condition will persist in the long term. However, please note that UNT System policy 8.20, which was adopted in August 2012, supersedes 10.007 for UNTD, 4.100 for UNT System and successfully resolves the finding noted above. As such, at this point, we feel that no further management action is required.</i></p> <p><i>Expected Implementation Date: 8/2012</i></p> <p><i>Individual Responsible for Implementation:</i> Allen Clemson, Vice Chancellor for Administration and Chief of Staff Carlos Hernandez, Vice President for Finance and Administration/CFO – UNT Dallas</p>