



Internal Audit

University of North Texas

University of North Texas  
Health Science Center at Fort Worth

University of North Texas  
Dallas Campus

**To:** Andrew Harris  
Vice President for Finance and Administration

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

**Date:** December 21, 2009

**Subject:** Annual Investments/Commercial Paper Review, Audit No. 09-002

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  
G. Bataille, D.A., President  
J. Bush, Acting Senior Associate Vice President for Finance  
R. McClendon, Senior Associate Vice President for Administration  
C. Whitlock, Manager of Treasury Services





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To: Andrew Harris  
Vice President for Finance and Administration

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

Date: December 21, 2009

Subject: Annual Investments/Commercial Paper Review, Audit No. 09-002

Internal Audit reviewed UNT and UNT System investments and commercial paper during the period of July 2009 through November 2009. The project was part of the approved work plan and required by UNT policy.

The objectives of the review were to:

1. Determine if the management of investment transactions is compliant with Regents Rules 10.100, Regents Rules 10.300, University Investment Policy 11.5, and the Public Funds Investment Act (PFIA);
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 Rules 10.100, and Regents Rules 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 noted that because of clerical errors some investment information was reported incorrectly on the June 30, 2009, investment report. These



errors have been corrected and had no impact on the University's investment portfolio. For commercial paper the total amount of interest needed to be adjusted because \$651.78 of interest was not reported on the commercial paper support schedule.

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

If you have any questions during the implementation phase, please contact us at 940-565-2153.

Cc    UNT System Board of Regents  
      L. Jackson, Chancellor  
      G. Bataille, D.A., President  
      J. Bush, Acting Senior Associate Vice President for Finance  
      R. McClendon, Senior Associate Vice President for Administration  
      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 Regents Rules 10.100, Regents Rules 10.300, UNT Policy 11.5, and Texas Government Code 2256, also known as the Public Funds Investment Act (PFIA). Investments are to be safeguarded, diversified, and provide sufficient liquidity to meet the reasonable anticipated needs of the University.

Regents Rules 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 if the management of investment transactions is compliant with Regents Rules 10.100, Regents Rules 10.300, University Investment Policy 11.5, and the Public Funds Investment Act (PFIA);
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 Rules 10.100, and Regents Rules 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.

## 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 2009 as disclosed on the UNT Investment Disclosure website;
- All investments were allowable and diversified according to the requirements set forth in the PFIA, Regents Rules 10.100, and Regents Rules 10.300, University Investment Policy 11.5;
- Regents and Investment Officers attended the PFIA required training (newly appointed Board members have been provided an investments training video in order to comply with PFIA investments training requirement);
- The list of approved brokers was approved by the Board of Regents; and
- 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 2009 Investment Report matched source documentation;
- All new fiscal year 2009 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; and
- Wire transfers were handled according to documented procedures during the sample month of June 2009.

### **Reporting**

- Internal Audit reviewed the quarterly Investment Report presented to the Board of Regents in August 2009. This report includes investment information as of June 30, 2009. During the course of this review, Internal Audit noted that the information presented for the totals in the certificate of deposit section and the prior period book and market values for agencies were incorrect. This resulted

from a clerical error in the transfer of the information from other reports to the quarterly investment report. With the exception of the items noted above, the Investment Report for the quarter ended June 30, 2009, is correct.

These errors were discussed with the Manager Treasury Services and the Acting Senior Associate Vice President for Finance. A revised report will be issued to the Board of Regents and posted on the University website. Future investment reports will be thoroughly reviewed to assure that these types of clerical errors do not occur.

- 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 2009 commercial paper issues and rollovers are compliant with Regents Rules 10.100, Regents Rules 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 just under \$24 million;
- The longest term of issue was within the 250 day term limit at 175 days;
- All principal proceeds were recorded to the proper general ledger accounts;
- Interest was recalculated. The total amount of interest needed to be adjusted because \$651.78 of interest was not reported on the commercial paper support schedule;
- New commercial paper was issued for the Business Leadership Building, the Health Science Center, and Dallas Campus totaling \$8,436,000;
- Failed Remarketing Policy is in place; and
- 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 have continued to be in compliance with Regents Rules 10.100, Regents Rules 10.300, University Investment Policy 11.5, and the Public Funds Investment Act (PFIA).

As of January 12, 2009, Moody's Investors Service reported the University of North Texas System's long-term rating as Aa3 and affirms a P-1 rating for commercial paper. An Aa3 rating is considered a high grade bond. This rating continues to show the strength of management and operations of UNT investments.