



Internal Audit

University of North Texas

University of North Texas
Health Science Center at Fort Worth

University of North Texas
Dallas Campus

To: Phil Diebel
Vice President for Finance and Business Affairs

From: Don Holdegraver, CIA, CFE
Chief Internal Auditor

Date: March 21, 2007

Subject: Internal Audit Report

Attached is the final audit report for Audit No. 06-004, Investments/Commercial Paper Review. 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.

No further action is necessary on your part. Internal Audit appreciates the cooperation extended during the audit.

Cc UNT System Board of Regents
L. Jackson, Chancellor
G. Bataille, PhD, President
C. Whitlock, Manager of Treasury Services





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To: Phil Diebel
Vice President for Finance and Business Affairs

From: Susan Finch, CIA, CICA
Director of Internal Audit

Date: March 21, 2007

Subject: Investments/Commercial Paper Review, Audit No. 06-004

Internal Audit completed a review of investments and commercial paper for fiscal year 2006. The annual review was part of the approved work plan and required by UNT Policy. The scope of the review is detailed in the attached report.

Objectives of the review were to:

1. Determine if investment transactions are managed in accordance with the University Investment Policy, Public Funds Investment Act (PFIA), and with methods prescribed by the Legislative Budget Board (LBB);
2. Perform a review of management controls;
3. Verify that investments are adequately and appropriately safeguarded; and
4. Evaluate the commercial paper program for compliance with UNT and System Policies.

Based on testing and evaluation of supporting documentation it appears that management controls are strong and functioning as intended. Investment operations continue to be in compliance with provisions of the Public Funds Investment Act and UNT and System Policies. Investments were adequately safeguarded, diversified, and provide sufficient liquidity to meet the reasonable anticipated financial needs of the University. Additionally, the System has complied with all requirements set forth in University Policy 11.5 and SY11.5 and SY11.10 for commercial paper.

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 565-2153.

Cc UNT System Board of Regents
 L. Jackson, Chancellor
 G. Bataille, PhD, President
 C. Whitlock, Manager of Treasury Services
 D. Holdegraver, CIA, CFE, Chief Internal Auditor, UNT System

Review Objectives

Objectives of the review were to:

1. Determine if investment transactions are managed in accordance with the University Investment Policy, Public Funds Investment Act (PFIA), and with methods prescribed by the Legislative Budget Board (LBB);
2. Perform a review of management controls;
3. Verify that investments are adequately and appropriately safeguarded; and
4. Evaluate the commercial paper program for compliance with UNT and System Policies.

Scope of Review

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

- Interviewed key personnel;
- Reviewed and evaluated documentation; and
- Sampled and tested investment transactions, purchases, and maturities for compliance.

Background

UNT 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.

For the period reviewed the total market value of UNT Investments was \$216,785,164 with monthly adjusted interest of \$832,951. Student Managed Investments had a market value of \$282,757 and a monthly adjusted interest of \$505. System Investments had a market value of \$18,227,113 and monthly adjusted interest of \$77,899.

Total outstanding commercial paper was \$27,194,149.

Observations

Compliance with the Public Funds Investment Act (PFIA) and University Policy

All investments held by the university must be in compliance with UNT Policy 11.5, System Policy 11.5, and the Public Funds Investment Act (PFIA). Protection of the portfolio is of main concern, followed by yield and liquidity. Additionally, quarterly, detailed investment reports must be submitted to the Board of Regents.

The following were identified when verifying compliance with policy:

- Upon review it was determined that management controls are adequate.
- The portfolio is properly diversified and liquid, and investments are in compliance with the provisions outlined by the PFIA and UNT Policy.
- All investments in the current portfolio have been authorized by policy.
- The Investment Officers and the Board of Regents have complied with the training requirements outlined in the PFIA.
- Entities that sell investments to the University have certified implementation of reasonable procedures and controls to prevent imprudent investment activities.
- Additionally, UNT policy is in adherence with the PFIA.
- Per UNT Policy 11.5, the portfolio must 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 University's investments. The portfolio yield was lower than the Treasury yield for fiscal year 2006, however, policy recognizes that such a yield may not always be met particularly during periods of rapidly rising interest rates.

Safeguarding and Inventory

UNT strives to maintain proper safeguarding controls over investments. The current portfolio was traced to safekeeping documents and supporting documentation.

The following were identified when verifying safeguarding controls:

- New purchases and maturities were appropriately documented and reviewed.
- All employees with signature authority were designated and current employees.
- Bank deposits are secured by pledged collateral with a market value greater than 100% of the deposits plus accrued interest less the insured amount by the FDIC.
- A policy review of wire transfers, along with a sample test of one month, showed that controls over this area are appropriate and information is secure.
- All transactions are conducted through Board approved broker agencies.

- All investments are held in the name of the “University of North Texas” or “University of North Texas System.”
- Neither the Investment Officer nor his designee has a personal or business interest in conflict with official job duties as related to investment activities and responsibilities.

Reporting

- The June 2006 quarterly report was reviewed for accuracy. All amounts, including market value, book value and interest earned were traced to third party supporting documentation.
- The quarterly report was in accordance with the PFIA 2256.023.
- SAO Reporting Requirements, which include posting to the Investments website and investment disclosure, were followed.

Commercial Paper

UNT policy authorizes the Vice Chancellor for Finance to issue short-term indebtedness up to \$50 million of Revenue Financing System (RFS) Commercial Paper to purchase equipment and to provide interim financing for capital projects during construction. The Commercial Paper issued and rolled forward in FY06 complies with University policy and the Public Funds Investment Act. In addition, the University has maintained a “Failed Remarketing Plan” in accordance with policy.

Commercial paper records were reviewed for proper authorization and documentation. Based on the review performed, management records are complete and accurate.

<h2>Conclusion</h2>

Based on testing and evaluation of supporting documentation it appears that management controls are strong and functioning as intended. Investment operations continue to be in compliance with provisions of the Public Funds Investment Act and UNT and System Policies. Investments were adequately safeguarded, diversified, and provide sufficient liquidity to meet the reasonable anticipated financial needs of the University.

Additionally, the System has complied with all requirements set forth in University Policy 11.5 and SY11.5 and SY11.10 for commercial paper.