

INVESTMENTS REVIEW
FISCAL YEAR 2005
Audit No. 05-003

BACKGROUND/SCOPE

UNT and System Investment Policies state that Internal Audit shall perform an annual compliance audit of management controls and adherence to these policies. Results will be reported to the Board of Regents and the State Auditor's Office. In accordance with policy, Internal Audit has completed a review of investments, as well as a review of quarterly reports submitted to governing bodies. Additionally, audit requirements under the Public Funds Investment Act (Government Code 2256) were also incorporated in this review. The Act governs the manner in which public funds may be invested and requires a compliance audit of management controls on investments be performed at least once every two years, and reported to the State Auditor's Office.

Internal Audit also completed a review of commercial paper transactions for fiscal year 2005. The Board of Regents authorized the use of commercial paper in May 2004, and in 2005 the System issued approximately \$31.2 million in commercial paper. Approximately \$28.8 million was outstanding at the end of fiscal year 2005.

OBJECTIVES

Based on University and System Policies, the Public Funds Investment Act, and State Auditor requirements, objectives of this review were as follows:

- Perform a review of management controls over investing activities and adherence to established investment policies;
- Verify investments are adequately and appropriately safeguarded;
- Verify investment transactions are recorded and reported in a manner consistent with state law and in accordance with methods described by the Legislative Budget Board; and
- Evaluate the commercial paper program for compliance with UNT and System Policies.

PROCEDURES/RESULTS

The following observations are based on written and verbal representations, testing, and other supporting documentation:

1. Review and evaluate specific compliance issues addressed by University and System policies and the Public Funds Investment Act.

- Investment training sponsored by the Texas Higher Education Coordinating Board, and attended by the Investment Officer and the Manager of Treasury Services satisfies the training required under Public Funds Investment Act, Texas Government Code, Section 2256.007(d).
- The current investment portfolio is in compliance with the provisions of UNT and System Investment Policies and the Public Funds Investment Act.
- Based on the review, management controls are adequate and functioning as intended.
- The UNT and System Investment Policies contain all necessary elements required by the Public Funds Investment Act.
- Neither the Investment Officer nor his designee has a personal or business interest in conflict with official job duties as related to investments activities and responsibilities.
- Broker/dealers seeking to sell investments to the University and System have received the Investment Policy and acknowledged review of the policy.
- All entities seeking to sell an investment to the University and System have certified implementation of reasonable procedures and controls to prevent imprudent investment activities.
- The investment portfolio appears sufficiently liquid and diversified and appears to meet future capital needs.
- One investment objective is to 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. While the investment portfolio has not recently maintained such a yield, UNT Policy 11.5 and System Policy SY11.5 recognize that "such a yield may not always be met ..."
- The current investment in derivatives does not exceed 10 percent of the total investment portfolio.

2. Verify investment inventory and related safeguarding procedures.

- Investments appear to be appropriately safeguarded through documented deposit agreements, limited access, specific internal transfer/approval procedures, and receipt of accurate safekeeping documents.
- TexPool fund accounts are protected against unauthorized use via User ID codes or other methods.
- Deposits are adequately secured by FDIC insurance and appropriately pledged securities.
- All investment transactions are conducted through Board approved broker agencies.
- Safekeeping records are complete. Investments are secure and held in the name of the “University of North Texas” or “University of North Texas System.”

3. Verify that investment transactions are appropriately recorded in the accounting records.

- Investment accounts are supported with appropriate documentation and properly recorded.
- The University and System appear to be appropriately allocating and recording interest earned on investments and properly amortizing and recording premium or discount on investments.

4. Verify that investment transactions are appropriately reported to governing entities.

- All elements required by investment policies are included in quarterly reports to the Board and other entities. These reports describe investment transactions, beginning market value, and changes in the market value of portfolio investments during the reported period. The reports are in compliance with both the investment strategy and the requirements of the Public Funds Investment Act and are submitted in a timely manner.

5. Review and evaluate specific compliance issues related to the Commercial Paper Program.

- Commercial paper issued has maintained a high rating and is considered short term.
- Liquidity is sufficient with regards to short term investments.

- As required by policy, the System has issued a “Failed Remarketing Plan.”

CONCLUSIONS

Based on analysis and evaluation of the procedures performed, it appears that management controls related to University and System investment policies and the Public Funds Investment Act are strong and functioning as intended. The University has complied with all requirements set forth in University Policy 11.5 and System Policies SY11.5 and SY11.10 for commercial paper. Internal Audit made one recommendation to strengthen the control environment for investments, to which management has appropriately responded.

cc: Mr. Lee Jackson, Chancellor
Dr. Norval F. Pohl, President
Mr. Phil Diebel, Vice President for Finance and Business Affairs
Ms. Carolyn Whitlock, Manager of Treasury Services
State Auditor’s Office