

ANNUAL INVESTMENTS AUDIT - FISCAL YEAR 2003
Audit No. 03-003

BACKGROUND/SCOPE

UNT Investment Policy 11.5 states, "The University's Internal Audit Department shall perform an annual compliance audit of management controls and adherence to this policy. The results will be reported to the Board of Regents and the State Auditor's Office." In accordance with this policy, Internal Audit has completed a review of University 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.

OBJECTIVES

Based on University Policy, 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 UNT's established investment policy;
- Verify investments are adequately and appropriately safeguarded; and
- Verify investment transactions are recorded and reported in a manner consistent with state law and in accordance with methods prescribed by the Legislative Budget Board.

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 policy and the Public Funds Investment Act.

- Investment training sponsored by the Texas Higher Education Coordinating Board, and attended by the Investment Officer and Cash Manager 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 Investment Policy and the Public Funds Investment Act.
- Based on the review, management controls are adequate and functioning as intended.
- The UNT Investment Policy contains 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 investment activities and responsibilities.
- Broker/dealers seeking to sell investments to the University have received the Investment Policy and acknowledged review of the policy.
- All entities seeking to sell an investment to the University 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 of the University.
- In accordance with Investment Policy, the investment portfolio has 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 current investment in derivatives does not exceed 10 percent of the total investment portfolio (current University investments include no derivative or CMO investments).

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.
- The University's 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."

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

- Investment accounts are supported with appropriate documentation and properly recorded.
- The University appears 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 Policy 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.

RECOMMENDATIONS

1. Investment Fund Group Controls

The Vice-President for Finance and Business Affairs requested that Internal Audit evaluate controls over endowment funds invested with the Common Fund. Internal Audit determined that transaction practices of the Common Fund indicated a need for UNT to implement compensating controls. Therefore, Internal Audit recommended the Cash Manager should require in writing Common Fund to prohibit signature guaranty letters for the bond and equity funds.

Management Response: *The Cash Manager has contacted Common Fund to request that Common Fund will not accept signature guaranty letters for the bond and equity funds and is waiting to receive confirmation in writing.*

2. Web Site Reporting

The State Auditor's Office has issued new requirements regarding reporting investments on the University web site. All requirements have been met with the following exceptions:

- The SAO has proposed that Internal Audit investment reports be posted on the University web page; and
- Two quarterly investment reports were not posted in a timely manner.

To meet SAO requirements, UNT should include the annual review of investments by Internal Audit on the investment web page. Additionally, management should take action to ensure quarterly reports are posted no later than seven days after presentation to the Board of Regents.

Management Response: University Communications and the Vice President for Finance and Business Affairs offices will post the November Board of Regents investment reports and the annual review of investment reports on the web site on November 24, 2003.

CONCLUSION

Based on analysis and evaluation of the procedures performed, it appears that management controls related to University Investment Policy and the Public Funds Investment Act are strong and functioning as intended.

cc: Mr. Lee Jackson, Chancellor
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Mr. Phil Diebel, Vice President for Finance and Business Affairs
State Auditor's Office