

Internal Audit

University of North Texas

University of North Texas  
Health Science Center at Fort Worth

University of North Texas  
Dallas Campus

**To:** Steve Russell  
Executive Vice President for Finance and Administration

**From:** Donald Holdegraver, CIA, CFE  
Chief Internal Auditor – UNT System

**Date:** February 5, 2009

**Subject:** Internal Audit Report

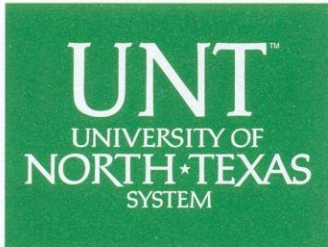
Attached is the final audit report for internal audit No. 09-003, Annual Investment Review. An executive summary is included as a quick reference to the audit results.

The respective administrators and staff personnel were given an opportunity to review the report and make revisions in matters of fact. The 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 management extended during the review.

**Cc:** UNT System Board of Regents  
L. Jackson, Chancellor  
S. Ransom, DO, President  
J. Trevino, Chief of Staff  
S. Oeffner, Associate Vice President for Finance  
D. Craig, Director of Accounting  
S. McAfee, Senior Financial Analyst  
L. Slezak, Director of Internal Audit/HSC





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**To:** Steve Russell  
Executive Vice President for Finance and Administration

**From:** Laurel Slezak  
Director of Internal Audit

**Date:** February 5, 2009

**Subject:** Annual Investment Review, Audit No. 09-003

Internal Audit performed the annual review of investments during the period December 2008 through January 2009. The annual review was included in the Board approved audit plan for fiscal year 2009.

The objectives of the review were to:

1. determine whether investment transactions are managed in accordance with the Center Investment Policy, Public Funds Investment Act (PFIA), and with methods prescribed by the Legislative Budget Board (LBB);
2. review management controls over investing activities;
3. verify that investments are adequately and appropriately safeguarded; and
4. verify the accuracy of quarterly and annual investment reports.

The scope of the review is detailed in the attached report.

Based on the testing and evaluation of supporting documentation, management controls are strong and functioning as intended. Investment functions were in compliance with the PFIA and Center policies except that the monthly collateral analysis is not being performed. Investments are adequately safeguarded, appropriately diversified, and provided sufficient liquidity to meet reasonable anticipated needs of the Center.



Internal Audit thanks you and your staff for the excellent cooperation we received during this review. If you have any questions concerning this report, please contact us at (817) 735-2060.

Cc:        UNT System Board of Regents  
          L. Jackson, Chancellor  
          S. Ransom, DO, President  
          J. Trevino, Chief of Staff  
          S. Oeffner, Associate Vice President for Finance  
          D. Craig, Director of Accounting  
          S. McAfee, Senior Financial Analyst  
          D. Holdegraver, Chief Internal Auditor/UNT System

## Background

The investment policy approved by the Board of Regents requires an annual review of investments by Internal Audit. The review was included in the audit plan approved by the Board of Regents for fiscal year 2009. Investments held by the Center must be in compliance with the Investment Policy and the PFIA. Safety of principal is the foremost investment objective, followed by yield and liquidity.

The Investment Policy approved by the Board of Regents establishes rules for the investment of all Center funds including funds held in trust for others. The Investment Policy requires Internal Audit to perform annually: 1) an evaluation of the investment portfolio to ensure compliance with the Investment Policy and objectives, 2) an audit of safekeeping and custodial systems, 3) a compliance audit of management controls and adherence to the policy, and 4) a review of quarterly investment reports.

The Center had investments of \$80,996,980.65, and the University of North Texas Health Science Center Foundation had investments of \$4,476,907 at August 31, 2008. Center investments of Tobacco Settlement Funds had a market value of \$26,944,825.53 in the Texas Treasury Trust Company (Texas Trust). Center investments of \$54,052,155.12 were maintained in the Texas Local Government Investment Pool (TexPool). TexPool is an investment pool available to government entities that operate under the oversight of the Texas Comptroller of Public Accounts and the Texas Trust.

## Objectives

The objectives of the review were to:

1. determine whether investment transactions are managed in accordance with the Center Investment Policy, Public Funds Investment Act (PFIA), and with methods prescribed by the Legislative Budget Board (LBB);
2. review management controls over investing activities;
3. verify that investments are adequately and appropriately safeguarded; and
4. verify the accuracy of quarterly and annual investment reports.

## Scope

To accomplish the objectives, Internal Audit performed the following procedures for fiscal year 2008 investments:

- interviewed key personnel;
- reviewed and evaluated documentation;
- tested investments for compliance; and
- examined investment reports for accuracy.

## Observations

### ***Public Funds Investment Act (PFIA) and Center Policy***

Investments held by the Center must be in compliance with the Investment Policy and the PFIA. The following were identified when verifying compliance with policy:

- Management controls are adequate and functioning as intended.
- The portfolio was properly diversified and liquid, and investments were in compliance with the provisions outlined by the PFIA and UNT policy.
- All investments in the portfolio were 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 Center have certified implementation of reasonable procedures and controls to prevent imprudent investment activities.
- The average yield for the portfolio was equal to or greater than the average treasury yield for fiscal year 2008. The Investment Policy states that the portfolio shall maintain a yield equal to or greater than the yield on Treasury Notes, but recognizes that such a yield may not always be met, particularly during periods of rapidly rising interest rates.
- The Center Investment Policy complies with requirements of the PFIA.

### ***Safeguarding and Inventory***

The Center strives to maintain proper safeguarding controls over investments. The portfolio was traced to safekeeping documents and supporting documentation. The following were identified when verifying safeguard controls:

- New purchases and maturities were appropriately documented and reviewed.
- Employees with signature authority were properly designated and were current employees.
- Bank deposits were adequately secured by pledged collateral and state or federal guaranties except when the monthly transfer was made to demand accounts to cover monthly payroll.

- Wire transfer policies and transactions were appropriate and information was secure.
- Transactions were conducted through Board approved broker agencies.
- Investments were held in the name of the “University of North Texas Health Science Center at Fort Worth.”
- Neither the Investment Officer nor his designee had a personal or business interest that conflicted with their official job duties related to investment activities and responsibilities.

### **Collateral Analysis**

- **A monthly review of pledged collateral to assure the market value of the pledged securities equals or exceeds the related bank balance is not being performed.**

Chapter 2257, Government Code, the Public Funds Collateral Act sets the standards for collateralization of public funds in Texas. UNT Health Science Center Investment Policy requires that all deposits and investments of Health Science Center funds shall be secured by pledged collateral with a market value equal to no less than 100% of the deposits plus accrued interest less an amount insured by the FDIC. Collateral shall be reviewed monthly to assure the market value of the securities pledged equals or exceeds the related bank balances.

Center funds could be at risk if sufficient pledged collateral is not maintained.

### **Suggested Management Action:**

1. Implement a process to perform a monthly review of pledged collateral to assure that the market value of pledged securities equals or exceeds the related bank balance.

Implementation will assure compliance with UNT Health Science Investment Policy.

### **Management Action Plan**

*Action 1 – Management agrees. Sandy McAfee, Senior Financial Analyst, will prepare a monthly collateral analysis for management's review. Implementation will begin with the statement for January 2009.*

### ***Reporting***

The Investment Policy states that the Investment Officer shall prepare and submit quarterly investment reports to the Board of Regents. At the end of each fiscal year the Center shall prepare a report of investment transactions and balances for the year.

- The December 2007 quarterly report and the August 31, 2008, Annual Investment Report were reviewed for accuracy. All amounts, including market value, book value, and interest earned were traced to Center records and third party supporting documentation. All information reported was accurate.
- The reports were in accordance with the PFIA.
- SAO reporting requirements, which include posting to the Investments website and investment disclosure, were followed.

### **Conclusion**

Based on the testing and evaluation of supporting documentation, management controls are strong and functioning as intended. Investment functions were in compliance with the Public Funds Investment Act and Center policies except for collateral analysis. Investments are adequately safeguarded, appropriately diversified, and provided sufficient liquidity to meet reasonable anticipated needs of the Center.