



Internal Audit

University of North Texas

University of North Texas  
Health Science Center at Fort Worth

University of North Texas  
Dallas Campus

**To:** Michael Mueller, MBA  
Vice President for Finance, Chief Financial Officer

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

**Date:** December 20, 2010

**Subject:** Annual Investment Review, Audit No. 11-005

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.

Internal Audit will be performing a follow-up to ensure actions have been taken on the recommendations made concerning this audit. Internal Audit appreciates the cooperation extended during the review.

**Cc** UNT System Board of Regents  
L. Jackson, Chancellor, UNT System  
T. Pankratz, Vice Chancellor for Finance, UNT System  
S. Ransom, DO, President  
G. Scarpelli, Controller, Chief Budget Officer  
D. Craig, CPA, Director of Accounting  
S. McAfee, CPA, Senior Financial Analyst





Internal Audit

University of North Texas

University of North Texas  
Health Science Center at Fort Worth

University of North Texas  
Dallas Campus

To: Michael Mueller, MBA  
Vice President for Finance, Chief Financial Officer

From: Laurel Slezak, CPA, CIA, CFE  
Director of Internal Audit

Date: December 20, 2010

Subject: Annual Investment Review, Audit No. 11-005

Internal Audit performed the annual review of investments during the period of November 2010 through December 2010. The annual review was included in the Board approved work plan for fiscal year 2011.

The objectives of the review were to:

1. Determine whether investment transactions are managed in accordance with the Center Investment Policy and the Public Funds Investment Act (PFIA);
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. Investments are adequately safeguarded, appropriately diversified, and provided sufficient liquidity to meet reasonable anticipated needs of the Center. Investment functions were in compliance with the PFIA and Center policies in all areas except the following:

- Reaffirmation of the investment policy was not noted on the UNTHSC web site within 30 days as required by the State Auditor's Office.



Internal Audit thanks Mr. Scarpelli and his staff for the excellent cooperation we received during this review.

If you have any questions during the implementation phase, please contact us at 817-735-2060

Cc    UNT System Board of Regents  
      L. Jackson, Chancellor, UNT System  
      T. Pankratz, Vice Chancellor for Finance, UNT System  
      S. Ransom, DO, President  
      G. Scarpelli, Controller, Chief Budget Officer  
      D. Craig, CPA, Director of Accounting  
      S. McAfee, CPA, Senior Financial Analyst  
      D. Holdegraver, CIA, CFE, 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 work plan approved by the Board of Regents for fiscal year 2011. 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 liquidity and yield.

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 \$100.4 million, and the University of North Texas Health Science Center Foundation had investments of \$4.9 million at August 31, 2010. Center investments of Tobacco Settlement Funds had a market value of \$23.1 million in the Texas Treasury Trust Company (Texas Trust). Center investments of \$77.3 million 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 and the Public Funds Investment Act (PFIA);
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 2010 investments:

- Interviewed key personnel;
- Reviewed and evaluated documentation; and
- Sampled and tested investments for accuracy of information reported in the UNTHSC Investment Report for the months of December 2009 and August 2010.

## Observations

*Establishment, implementation, and maintenance of internal controls are management responsibilities. The Suggested Management Actions in the following observations are Internal Audit's recommended approach based on financial, operational, and compliance rules, regulations, policies, guidelines, statutes, or best practices. Management is free to accept or reject the suggested actions, or offer alternative actions to address the 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 UNTHSC 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 2010. 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.
- 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.

## **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 31, 2009, quarterly report and the August 31, 2010, annual and quarterly investment reports 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 materially accurate.
- The reports were in accordance with the PFIA.
- With the exception of the following observation, State Auditor’s Office (SAO) reporting requirements, which include posting to the investments website and investment disclosure, were followed.

## **Investment Policy**

- **Reaffirmation of the investment policy was not noted on the UNTHSC web site within 30 days as required by the SAO.**

In SAO Report #02-058, Higher Education Investment Reporting Requirements, under chapter 2.4 it states:

*“Any reaffirmations or changes to this [Investment] policy authorized by the institution’s board must be updated on the Web site within 30 days. The date of the board’s last annual reaffirmation of the investment policy must be noted.”*

In March 2008, the SAO published Report #08-023, A Review of State Agency, University, and Community College District Compliance with the Public Funds Investment Act and Investment Reporting Requirements. In that report the SAO reported UNTHSC was substantially compliant with reporting requirements, but that:

*“The investment policies the university posted on its Web site were not current or did not disclose the date of the most recent annual reaffirmation.”*

UNTHSC reposts the investment policy to show the Board's reaffirmation of the policy. The Board reaffirmed the policy on August 19, 2010. The last reposting of the investment policy on the UNTHSC web site was April 7, 2010.

UNTHSC can ensure compliance with SAO reporting requirements by reposting the investment policy within 30 days of the Board's reaffirmation of the policy.

Suggested Management Action

1. Changes to or reaffirmation of the investment policy should be noted on the investment disclosure webpage within 30 days of a change or reaffirmation.

Implementation will provide assurance that UNTHSC discloses changes and reaffirmations of the investment policy as required by the SAO.

Management Action Plan

*Management agrees with the recommended action. The Finance Division has fully implemented the recommended action by posting the revised Investment policy on December 13, 2010, on the Institution's website and the date the policy was reaffirmed by the Board of Regents. In addition, we have revised the Financial Planning and Budget website to ensure the documents related to the "Investment Policies, Reports, and Disclosures" are easier to locate. Furthermore, Mr. Geoffrey Scarpelli, Controller and Chief Budget Officer, has created a process to ensure all investment requirements are met by creating internal documentation, which provides requirements and guidance for fillings. The estimated implementation date will be May 31, 2011.*

<h2>Conclusion</h2>
---------------------

Based on the testing and evaluation of supporting documentation, management controls are strong and functioning as intended. Investments are adequately safeguarded, appropriately diversified, and provided sufficient liquidity to meet reasonable anticipated needs of the Center. Investment functions were in compliance with the PFIA and Center policies in all areas except noting the reaffirmation of the Investment Policy.