

**FY 2015 Investment Compliance Audit  
Audit No. 16-004 UNT System, UNT,  
UNT Dallas and Audit No. 16-009  
UNTHSC**

Tracy C. Grunig, MPA, CISSP, CISA, CFE  
Chief Audit Executive

January 15, 2016

---

w13.6(ddnt)18.3ntndlaorr ionntntnynt13.6(dc80.004)5(s)tr08w1004 Tc 0111 Tw -241ro(e)6]TJ 0 T-a ad 5 9.  
further strengthen internal controls.

The observations identified during the review are summarized below:

*Conflict of Interest – UNT System / UNT / UNT Dallas* – The current Conflict of Interest policy relies on self-disclosure. Currently, there is no formal process in place to determine and document if an investment officer or any authorized designee has a personal business relationship with a business organization offering to engage in an investment



**FY 2015 Investments Audit**

**Audit No. 16-004 UNT System, UNT, UNT Dallas and Audit No. 16-009 UNTHSC**

---

Dan Edelman, Vice President of Finance and Administration and  
CFO, UNT Dallas  
Geoffrey Scarpelli, Vice President of Finance and Planning  
Anne Long, Chief Compliance and Risk Management Officer  
Joey Saxon, Senior Director for Business Support Services  
Steve Hill, Director of Institutional Compliance  
Texas State Auditor's Office

Legislative Budget Board  
Sunset Advisory Commission  
Governor's Office

---

**Observations  
with  
Management's Responses**

---

**FY 2015 Investments Audit  
Audit No. 16-004 UNT System, UNT, UNT Dallas and  
Audit No. 16-009 UNTHSC**

---

**FY 2015 Investments Audit**  
**Audit No. 16-004 UNT System, UNT, UNT Dallas and Audit No. 16-009 UNTHSC**

**Conflict of Interest – UNT System / UNT / UNT Dallas**

**What We Found**

The current Conflict of Interest policy relies on self-

**FY 2015 Investments Audit**

**Audit No. 16-004 UNT System, UNT, UNT Dallas and Audit No. 16-009 UNTHSC**

1. Management to work with Office of General Counsel and Human Resources to establish a mechanism, which includes a conflict of interest disclosure form, through which investment officers self-report annually any real or perceived conflicts of interest.
2. Implement a required annual conflict of interest training program to provide investment officers a clear understanding of their roles and responsibilities related to conflict of interest and steps they would need

**FY 2015 Investments Audit**

**Audit No. 16-004 UNT System, UNT, UNT Dallas and Audit No. 16-009 UNTHSC**

**Bank Addendum Certificate of Authority - UNT**

**What We Found**

Testing identified two terminated employees with access to the UNT

**FY 2015 Investments Audit**  
**Audit No. 16-004 UNT System, UNT, UNT Dallas and Audit No. 16-009 UNTHSC**

**Conflict of Interest – UNTHSC**

---

<b>What We Found</b>	For UNTHSC, Policy 03.103 requires an annual conflict of interest disclosure form to be completed; however, we found that one out of three employees (33%) who have access to investment related bank accounts did not complete the form.
<b>Why the Issue is Important</b>	Without a process in place it increases the risk for: x Non-compliance with UNTHSC Policy 03.103, system regulation 08.2000, and PFIA requirements;; x Conflict of interest or personal gain going undetected; x Potential negative publicity.
<b>What is Causing the Issue</b>	The internal controls within the existing review process were insufficient to ensure reviews performed identified controls deficiencies.
<b>What is Expected or Required</b>	UNTHSC Conflict of Interest Disclosure 03.103 states: Requires all UNTHSC faculty and applicable staff must complete the UNTHSC Disclosure Form to report related outside activities and related financial interest upon employment and to additionally report all changes to the disclosure statement to the Institutional Compliance

---

**FY 2015 Investments Audit**

**Audit No. 16-004 UNT System, UNT, UNT Dallas and Audit No. 16-009 UNTHSC**

**Inaccuracy of Quarterly Investment Report – UNT System / UNT / UNT Dallas**

---

<b>What We Found</b>	Testing of the accuracy of quarterly investment reports identified the following: <ul style="list-style-type: none"><li>x Footing errors were noted (UNT System, UNT and UNT Dallas)</li><li>x There were 6 instances where ending and beginning balances for successive quarters did not match (UNT System, UNT and UNT Dallas)</li><li>x For the third quarter investment report posted on the investment disclosure website, the beginning and ending balances did not match to the prior and next quarter respectively (UNT Dallas)</li><li>x For the third quarter, the investment report posted on the investment disclosure website per SAO requirements was different from what was presented to the Board of Regents (UNT Dallas).</li></ul>
<b>Why the Issue is Important</b>	Inaccurate information reported could result in errors in decision making and create negative public perception and confidence. Additionally, this issue was already identified in the previous audit-1505 SYS FY2014 Investments Audit.
<b>What is Causing the Issue</b>	There is not an adequate review process in place to ensure completeness and accuracy of the quarterly investment reports.
<b>What is Expected or Required</b>	The quarterly investment report information reported to the Board of Regents and available to the public should always be complete and accurate.
<b>What We Recommend</b>	Recommendations for Associate Vice Chancellor for Treasury: <ul style="list-style-type: none"><li>8. Review fiscal year 2015 quarterly investment reports for which ending and beginning balances for successive quarters did not match and make necessary corrections. Then, update the investment disclosure websites with the corrected reports.</li><li>9. Implement a review process for quarterly investment reports to ensure the accuracy of data to be reported prior to the issuance to the Board of Regents and posting on the institution's investment disclosure website.</li></ul>

---





**FY 2015 Investments Audit**

**Audit No. 16-004 UNT System, UNT, UNT Dallas and Audit No. 16-009 UNTHSC**

**Short Term Pool/Long Term Pool Ranges – UNT System / UNT / UNT Dallas**

---

<b>What We Found</b>	For certain months in fiscal year 2015, UNT System, UNT and UNT Dallas short term working capital funds ("Short Term Pool") and long term reserves ("Long Term Pool") percentage of available cash on hand were outside the ranges prescribed by System Regulation 08.2000 (Regulation). Additionally, necessary adjustments were not performed to ensure percentages remained within this range as required by the Regulation.
<b>Why the Issue is Important</b>	Not following the percentages prescribed by the Regulation may result in the University not achieving desirable investment returns.
<b>What is Causing the Issue</b>	Regulation does not fully reflect the cyclical nature of revenues that the System/University receives especially from tuition fees.
<b>What is Expected or Required</b>	System Regulation 08.2000 Section 2 (Short Term Working Capital Funds) requires the short term working capital funds percentage to be at least 55% and not more than 75% of available cash on hand and to be adjusted monthly as necessary to remain within this range.

---

**FY 2015 Investments Audit**  
**Audit No. 16-004 UNT System, UNT, UNT Dallas and Audit No. 16-009 UNTHSC**

**Collateralization Below 102% - UNTHSC**

<b>What We Found</b>	For 11 days in August 2015, collateralization for deposit accounts fell below 102% of deposits.
<b>Why the Issue is Important</b>	Having sufficient collateral in place provides an avenue for full recovery of assets in the unlikely event of the failure of the depository bank. Additionally, maintaining collateral at 102% ensures compliance with System Regulation 08.2000.
<b>What is Causing the Issue</b>	The internal controls within the existing review process were insufficient to ensure timely communication of changes of deposits to the bank.
<b>What is Expected or Required</b>	<p>System Regulation 08.2000 Section 08.2005 #8 states "All bank deposits of System funds shall be secured by pledged collateral with a market value equal to no less than 102% of the deposits plus accrued interest less an amount insured by the FDIC" and "Collateral shall be reviewed monthly to assure the market value of the securities pledged equals or exceeds the related bank balances".</p> <p>Section 3.09 C (2) of the Master Depository and Banking Agreement between UNTHSC and JP Morgan Chase Bank states, "Bank acknowledges and accepts that it will monitor and maintain the Collateral and the Required Collateral Percent margin. Participating Institutions will inform Bank of changes in the amount or activity of deposits, that may exceed Participating Institutions' Collateral value, within a reasonable time before the change occurs. If, after the close of trading on any business day, the market value of the Government Securities then held by Custodian as a percent of the Collected Balances on deposit with Bank in all accounts of the Participating Institutions is less than the Required Collateral Percent, Bank agrees to deliver to Custodian, without notice from any Participating Institution, additional Collateral in an amount such that the market value of the Government Securities then held by Custodian will at least equal the Required Collateral Percent."</p>
<b>What We Recommend</b>	<p>Recommendation for Associate Vice Chancellor for Treasury and UNTHSC Vice President of Finance and Planning:</p> <p>15. Management should establish and follow procedures to inform the bank of changes in the amount or activity of deposits, that may exceed UNTHSC's collateral value, within a reasonable time before the change occurs.</p>
<b>What Action Management Commits to Do</b>	<p>Management agrees with the recommendation. Management will add additional steps to the current set of collateralization review procedures to ensure that the bank is notified in a more timely manner before large changes in deposits occur and when collateralization falls below the required amount.</p> <p><i>Expected Implementation Date: March 1, 2016</i></p> <p><i>Individual Responsible for Implementation: Barbara Holt, UNTHSC Senior Director Financial Operations</i></p>

**FY 2015 Investments Audit**  
**Audit No. 16-004 UNT System, UNT, UNT Dallas and Audit No. 16-009 UNTHSC**

**Format and Content of Quarterly Investment Reports – UNT System / UNT / UNT Dallas / UNTHSC**

**What We Found**



**FY 2015 Investments Audit**

**Audit No. 16-004 UNT System, UNT, UNT Dallas and Audit No. 16-009 UNTHSC**

**Outdated Investment Policy – UNTHSC**

---

<b>What We Found</b>	For UNTHSC, an outdated institutional investment policy is posted on the webpage under Chapter 10: Fiscal Management. However, this policy was superseded by System Regulation 08.2000 which was approved in August 2012.
<b>Why the Issue is Important</b>	Posting outdated policies could be misleading to staff and improper decisions may be made resulting in non-compliance with System investment policies and strategies.
<b>What is Causing the Issue</b>	The internal controls within the existing review process were insufficient to ensure UNTHSC's policy webpage was updated in a timely manner.
<b>What is Expected or Required</b>	Regent Rule 10.100 requires System Administration and each institution to adhere to the System Regulation 08.2000 - Investment of System Funds. On August 12, 2012, the Board of Regents adopted revisions to Regent Rule 10.100 requiring consolidation of the investment policies and strategies of the UNT System.
<b>What We Recommend</b>	Recommendation for UNTHSC Vice President of Finance and Planning:  19. Management should update the website to reflect System Regulation 08.2000 and revisions made should be communicated to appropriate personnel.
<b>What Action Management Commits to Do</b>	Management is in agreement with the recommendation. Management will implement additional steps to the current set of procedures to insure timely updating of investment policies and maintaining all