

## PROJECT PERFORMED

For fiscal year 2015, Internal Audit conducted a review of investments for UNT System, UNT, UNT Dallas and UNTHSC. This audit is required by the Public Funds Investment Act (PFIA) Texas Government Code, Section 2256.005 and UNT System Regulation 08.2000, Investment of System Funds.

The objectives of this audit were to provide assurance that controls surrounding the investing activities are effective; as well as adherence with System Regulation 08.2000, UNT System Board of Regents Rule 10.100, and PFIA including State Auditor's Office (SAO) Article III, Rider 5 reporting requirements. In order to achieve this, we reviewed relevant policies, procedures and relevant regulatory requirements. Additionally, we conducted interviews with appropriate personnel and performed substantive testing.

This audit was part of the Board of Regents approved annual audit plan and conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and *Generally Accepted Government Auditing Standards*.

## KEY OBSERVATIONS AND MANAGEMENT ACTIONS

Key observations are ranked based on risk. **Red** indicates a High Risk observation, **Yellow** indicates a Moderate Risk, and **Green** indicates a Low Risk.

UNT System, UNT, UNT Dallas and UNTHSC were in compliance with the PFIA, UNT System Regulation 08.2000, and Regents Rule 10.100. In addition, all components are in compliance with state higher education investment reporting requirements including SAO Article III, Rider 5 requirements.

Overall, although we found that UNT System, UNT, UNT Dallas and UNTHSC generally comply with System Regulation 08.2000, UNT System Board of Regents Rule 10.100, and Public Funds Investment Act (PFIA) including SAO Article III, Rider 5 reporting requirements; several instances of non-compliance were identified. There are opportunities for improvement and the suggested recommendations will further strengthen internal controls.

The observations identified during the review are summarized below:

**Red** *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 transaction with UNT System, UNT, and UNT Dallas.

Recommendations for Associate Vice Chancellor for Treasury:

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 to take in the event of a concern.
3. For staff positions which do not require an annual conflict of interest disclosure form to be completed, consider requiring periodic acknowledgement of the institution's ethics policy from staff, which has conflict of interest embedded within the policy.

**Yellow** *Bank Addendum Certificate of Authority – UNT* - Testing identified two terminated employees with access to the UNT repurchase sweep account ending in account number 2633.

Recommendations for Associate Vice Chancellor for Treasury:

4. To work with the Institutional CFO's in establishing an annual review process to ensure that bank account access for employees are appropriate based on their roles and responsibilities.
5. For employees that have an employment status change which includes termination, establish a process to remove access immediately.

**Yellow** *Conflict of Interest – UNTHSC* – One out of three employees (33%) who have access to investment related bank accounts did not complete a conflict of interest disclosure form.

Recommendations for UNTHSC CFO:

6. Require all applicable staff to be re-educated on the policy.
7. Work with the Office of Compliance to implement a monitoring process to ensure applicable staff completes an annual conflict of interest disclosure form.

**Yellow** *Inaccuracy of Quarterly Investment Report – UNT System / UNT / UNT Dallas* - Testing of the accuracy of quarterly investment reports identified footing errors, instances of ending and beginning balances for successive quarters not matching, incorrect balances for the third quarter and incorrect investment report posted on the investment disclosure website.

Recommendations for Associate Vice Chancellor for Treasury:

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.
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.

**Yellow** *Reconciliation to the General Ledger – UNTHSC* - The cash account balance per the investment report was different from the balances recorded in the general ledger as of August 31, 2015. The

**FY 2015 Investments Audit**


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

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balance per the quarterly investment report was understated by \$4,430,968.57.


Recommendations for Associate Vice Chancellor for Treasury, UNTHSC CFO and UNTHSC Vice President of Finance and Planning:

10. Establish a process to ensure year-end close is performed on a timely basis.
11. Establish a review process to ensure balances in the quarterly investment reports reconcile to the balances in the general ledger.

 *Presentation of the UNTHSC and UNTHSC Foundation Investments on the Quarterly Investment Reports – UNTHSC* - The August 31, 2015 UNTHSC Quarterly Investment Report did not reflect the separation of investments belonging to UNTHSC and to UNTHSC Foundation.


Recommendations for Associate Vice Chancellor for Treasury and UNTHSC Vice President of Finance and Planning:

12. For subsequent periods, UNTHSC should identify and exclude all investments belonging to UNTHSC Foundation from the financial statements and investment reports. If investments are not excluded, properly define on the investment reports which amount is for UNTHSC and for Foundation.
13. Establish a review process to ensure investments in the quarterly investment reports are appropriate.

 *Short Term Pool/Long Term Pool Ranges – UNT System / UNT / UNT Dallas* - For certain months in fiscal year 2015, short term working capital funds and long term reserves percentage of available cash on hand were outside the ranges prescribed by policy. Additionally, necessary adjustments were not performed to ensure percentages remained within this range as required by the Regulation.


Recommendation for Associate Vice Chancellor for Treasury:

14. Review the Investment of System Funds Regulation 08.2000 pertaining to short and long term investment percentages to determine if the percentage requirement ranges should be updated to reflect the financial environment of UNT System and its' institutions.

 *Collateralization Below 102% - UNTHSC* - For 11 days in August 2015, collateralization for deposit accounts fell below 102% of deposits.


Recommendation for Associate Vice Chancellor for Treasury and UNTHSC Vice President of Finance and Planning:

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.

 *Format and Content of Quarterly Investment Reports – UNT System / UNT / UNT Dallas / UNTHSC* - The format and content of quarterly investment reports is not consistent across all institutions.


Recommendations for Associate Vice Chancellor for Treasury:

16. Management should determine if cash should be included in the quarterly investment reports, and once defined apply methodology consistently for all institutions.
17. Management should determine an appropriate reporting format and once established utilize the new format for all institutions.

 *Annual Review and Adoption of Financial Institutions – UNT System* - There was no indication that Board of Regents reviewed and adopted a list of financial institutions for fiscal year 2015.

Recommendation for Associate Vice Chancellor for Treasury:

18. Establish procedures to ensure compliance with System Regulation 08.2000, Section 2005, paragraph 10 or review the System Regulation to see if requirement is applicable as is and make changes as necessary.

 *Outdated Investment Policy – 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.

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.

Management committed to action plans related to each recommendation(s) above.

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Legislative Budget Board  
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**Observations  
with  
Management's Responses**

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

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

<b>What We Found</b>	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 transaction with UNT System, UNT, and UNT Dallas.
<b>Why the Issue is Important</b>	Without a process in place it increases the risk for: <ul style="list-style-type: none"> <li>• Non-compliance with UNT System regulation 08.2000, Ethics policies, and PFIA requirements;</li> <li>• Conflict of interest or personal gain going undetected;</li> <li>• Potential negative publicity to UNT System and its institutions.</li> </ul>
<b>What is Causing the Issue</b>	The policies do not lay out a mechanism for effectively identifying any real or perceived conflict of interest.
<b>What is Expected or Required</b>	<p>System Regulation 08.2000 Section 11(b) states, “Should any Investment Officer have a personal business relationship with a business organization offering to engage in an investment transaction with the System, a statement shall be filed disclosing that personal business interest. This statement must be filed with the Texas Ethics Commission and the Board of Regents. A “personal business relationship” is defined in Chapter 2256.005(i) of the Public Funds Investment Act.”</p> <p>Chapter 2256.005(i) PFIA states:  “An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:</p> <ol style="list-style-type: none"> <li>a) The investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;</li> <li>b) Funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or</li> <li>c) The investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.”</li> </ol> <p>UNT System Ethics Policy #03.701 Section 2 states:</p> <ol style="list-style-type: none"> <li>d) No staff member shall make personal investments that could reasonably be expected to create a substantial conflict between the staff member's private interest and the public interest.</li> <li>f) No staff member shall hold financial interests that are in conflict with the conscientious performance of his or her official duties and responsibilities.</li> <li>i) No staff member shall use his or her public office or position for private gain.</li> </ol> <p>UNT Denton Ethics Policy #1.2.9 Section 1.0 states:</p> <ol style="list-style-type: none"> <li>1.4. No faculty or staff member shall make personal investments that could reasonably be expected to create a substantial conflict between the faculty or staff member's private interest and the public interest.</li> <li>1.6. No faculty or staff member shall hold financial interests that are in conflict with the conscientious performance of his or her official duties and responsibilities.</li> <li>1.9. No faculty or staff member shall use his or her public office or position for private gain.</li> </ol> <p>UNT Dallas Employee Ethics and Standards of Employee Conduct 5.007 Section 1 states:</p> <ol style="list-style-type: none"> <li>1.05. No employee shall make personal investments or have a personal or financial interests that could reasonably be expected to create a substantial conflict between the employee's private interest and public interest, except that nothing in this policy shall prohibit an employee from owning or being awarded equity interests for participating in a business enterprise as permitted in section 51.912 of the Texas Education Code.</li> <li>1.08. No employee shall use his or her official position or state issued items such as identification card for private gain, obtaining privileges, or avoiding consequences of illegal acts.</li> </ol>
<b>What We Recommend</b>	Recommendations for Associate Vice Chancellor for Treasury:

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 to take in the event of a concern.
  3. For staff positions which do not require an annual conflict of interest disclosure form to be completed, consider requiring periodic acknowledgement of the institution's ethics policy from staff, which has conflict of interest embedded within the policy.
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**What Action Management  
Commits to Do**

Management will work with Office of General Counsel, Human Resources, and the campuses to establish and implement a documented formal procedure that will both provide training on and address conflicts of interest.

*Expected Implementation Date: August 31, 2016*

*Individual Responsible for Implementation: James Mauldin, Associate Vice Chancellor for Treasury*

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**Bank Addendum Certificate of Authority - UNT**

<b>What We Found</b>	Testing identified two terminated employees with access to the UNT repurchase sweep account ending in account number 2633, in which one employee's last date was July 1, 2015 and the other was August 1, 2015. However, it was noted that access for these two employees were removed where applicable from other accounts that were reviewed.
<b>Why the Issue is Important</b>	Unauthorized access may result in loss of funds or misuse of University funds.
<b>What is Causing the Issue</b>	There was not an adequate review process in place to ensure appropriate employees have authorized access and access is removed on a timely basis when needed.
<b>What is Expected or Required</b>	UNT System Information Security Handbook 8.1 states "All employees and contractors must understand their roles and responsibilities pertaining to information security. Employee and contractor access to information and information resources must be reviewed and modified when employment status changes occur, and due to termination or changes in written agreements."
<b>What We Recommend</b>	<p>Recommendations for Associate Vice Chancellor for Treasury:</p> <ol style="list-style-type: none"> <li>4. To work with the Institutional CFO's in establishing an annual review process to ensure that bank account access for employees are appropriate based on their roles and responsibilities.</li> <li>5. For employees that have an employment status change which includes termination, establish a process to remove access immediately.</li> </ol>
<b>What Action Management Commits to Do</b>	<p>Online log on credentials were disabled prior to the employees' termination. Management will review existing processes for improvement opportunities regarding immediate removal of all access for terminated employees. In addition, Treasury will work with the CFO's regarding establishing a review that occurs no less than annually.</p> <p><i>Expected Implementation Date: June 30, 2016</i></p> <p><i>Individual Responsible for Implementation: James Mauldin, Associate Vice Chancellor for Treasury</i></p>

**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: <ul style="list-style-type: none"> <li>• Non-compliance with UNTHSC Policy 03.103, system regulation 08.2000, and PFIA requirements;;</li> <li>• Conflict of interest or personal gain going undetected;</li> <li>• Potential negative publicity.</li> </ul>
<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>	<p>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 Office within thirty (30) days of the change. “Applicable staff” means all administrative and professional (non-faculty) employees, who have signature authority, are approvers or are alternate approvers on accounts, or negotiate and/or approve any procurement contracts.</p> <p>System Regulation 08.2000 Section 11(b) states, “Should any Investment Officer have a personal business relationship with a business organization offering to engage in an investment transaction with the System, a statement shall be filed disclosing that personal business interest. This statement must be filed with the Texas Ethics Commission and the Board of Regents. A “personal business relationship” is defined in Chapter 2256.005(i) of the Public Funds Investment Act.”</p> <p>Chapter 2256.005(i) PFIA states:  “An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer’s entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:</p> <ol style="list-style-type: none"> <li>a) The investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;</li> <li>b) Funds received by the investment officer from the business organization exceed 10 percent of the investment officer’s gross income for the previous year; or</li> <li>c) The investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.”</li> </ol>
<b>What We Recommend</b>	<p>Recommendations for UNTHSC CFO:</p> <ol style="list-style-type: none"> <li>6. Require all applicable staff to be re-educated on the policy.</li> <li>7. Work with the Office of Compliance to implement a monitoring process to ensure applicable staff completes an annual conflict of interest disclosure form.</li> </ol>
<b>What Action Management Commits to Do</b>	<p><i>Management will work with the UNTHSC Compliance Office to establish and implement procedures to notify employees when they have not completed the Conflict Disclosure Form within the required time frame established by UNTHSC and a process for educating staff about possibly detecting conflicts of interest.</i></p> <p><i>Expected Implementation Date: May 31, 2016</i></p> <p><i>Individual Responsible for Implementation: Director, Financial Planning &amp; Policy Analysis</i></p>



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

<b>What We Found</b>	<p>Testing of the accuracy of quarterly investment reports identified the following:</p> <ul style="list-style-type: none"> <li>• Footing errors were noted (UNT System, UNT and UNT Dallas)</li> <li>• There were 6 instances where ending and beginning balances for successive quarters did not match (UNT System, UNT and UNT Dallas)</li> <li>• 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>• 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>	<p>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.</p>
<b>What is Causing the Issue</b>	<p>There is not an adequate review process in place to ensure completeness and accuracy of the quarterly investment reports.</p>
<b>What is Expected or Required</b>	<p>The quarterly investment report information reported to the Board of Regents and available to the public should always be complete and accurate.</p>
<b>What We Recommend</b>	<p>Recommendations for Associate Vice Chancellor for Treasury:</p> <ol 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> </ol>
<b>What Action Management Commits to Do</b>	<p>Fiscal Year 2015 was a transitional year organizationally for a consolidated treasury operation. Treasury has already begun working with the campuses to ensure that the investment reports on the websites are accurate and will continue to do so. A quality review process of these reports has been implemented and will going forward include ensuring that the posting to each campus’ website is accurate and complete.</p> <p><i>Expected Implementation Date: March 31, 2016</i></p> <p><i>Individual Responsible for Implementation: James Mauldin, Associate Vice Chancellor for Treasury</i></p>

**● Reconciliation to the General Ledger - UNTHSC**

<b>What We Found</b>	For UNTHSC cash account, the balance per the investment report was different from the balances recorded in the general ledger as of August 31, 2015. The balance per the quarterly investment report was understated by \$4,430,968.57.
<b>Why the Issue is Important</b>	Inaccurate information reported could result in errors in decision making and create negative public perception and confidence.
<b>What is Causing the Issue</b>	Year-end close is not performed timely; therefore, due to time constraints, the quarterly report was prepared and released prior to the close of the period. The cash balance was obtained from the general ledger at some point before the accounts were fully reconciled.
<b>What is Expected or Required</b>	The cash amount reported on the quarterly investment report should represent the final reconciled amount from the general ledger.
<b>What We Recommend</b>	<p>Recommendations for Associate Vice Chancellor for Treasury, UNTHSC CFO, and UNTHSC Vice President of Finance and Planning:</p> <ol style="list-style-type: none"> <li>10. Establish a process to ensure year-end close is performed on a timely basis.</li> <li>11. Establish a review process to ensure balances in the quarterly investment reports reconcile to the balances in the general ledger.</li> </ol>
<b>What Action Management Commits to Do</b>	<p>FY15 was the first time UNTHSC's financial close was managed by UNT System Controller staff, none of whom had experience in prior UNTHSC year-end financial close activities. The year-end financial close process continues to improve since the Financial Transformation Project began. For the preparation of the FY16 Annual Financial Reports, the System Controller is preparing a timeline/schedule that will require each institution to complete their annual financial reports by early October. This would result in general ledger balances being fully reconciled and finalized by the end of September. In addition, the new review process for investment reports will include Accounting staff to ensure reported cash balances reconcile to the GL.</p> <p><i>Expected Implementation Date: October 31, 2016</i></p> <p><i>Individual Responsible for Implementation: Paula Welch, Associate Controller / James Mauldin, Associate Vice Chancellor for Treasury</i></p>

**● Presentation of the UNTHSC and UNTHSC Foundation Investments on the Quarterly Investment Reports**

<b>What We Found</b>	The August 31, 2015 UNTHSC Quarterly Investment Report did not reflect the separation of investments belonging to UNTHSC and to UNTHSC Foundation.
<b>Why the Issue is Important</b>	Inaccurate information reported could result in errors in decision making and create negative public perception and confidence.
<b>What is Causing the Issue</b>	The quarterly investment reports were prepared to match the way investments were reported in the financial statements.
<b>What is Expected or Required</b>	UNTHSC's Quarterly Investment Reports should only contain investments belonging to UNTHSC.
<b>What We Recommend</b>	<p>Recommendations for Associate Vice Chancellor for Treasury and UNTHSC Vice President of Finance and Planning:</p> <ol style="list-style-type: none"> <li>12. For subsequent periods, UNTHSC should identify and exclude all investments belonging to UNTHSC Foundation from the financial statements and investment reports. If investments are not excluded, properly define on the investment reports which amount is for UNTHSC and for Foundation.</li> <li>13. Establish a review process to ensure investments in the quarterly investment reports are appropriate.</li> </ol>
<b>What Action Management Commits to Do</b>	<p>Management believes the Board of Regents should have quarterly visibility to all investments that exist for the benefit of the System and therefore each Foundation's investments should not be excluded. However, we do agree that they should be clearly labeled as such. Treasury is in the process of reformatting all investment reports and will ensure that endowments, both campus and foundation, are included yet clearly labeled. A quality review of these reports is important and has been implemented to ensure that reports to the Board are accurate.</p> <p style="text-align: center;"><i>Expected Implementation Date: March 31, 2016</i></p> <p style="text-align: center;"><i>Individual Responsible for Implementation: James Mauldin, Associate Vice Chancellor for Treasury</i></p>

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**▲ 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>	<p>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.</p> <p>Section 3 (Long Term Cash Reserves) requires the long term cash reserves percentage to be at least 25% and not more than 45% of available cash on hand and to be adjusted monthly as necessary to remain within this range.</p>
<b>What We Recommend</b>	<p>Recommendation for Associate Vice Chancellor for Treasury:</p> <p>14. Review the Investment of System Funds Regulation 08.2000 pertaining to short and long term investment percentages to determine if the percentage requirement ranges should be updated to reflect the financial environment of UNT System and its’ institutions.</p>
<b>What Action Management Commits to Do</b>	<p>This has already been addressed in the investment policy adopted by the Board on November 20, 2015.</p> <p><i>Expected Implementation Date: November 20, 2015</i></p> <p><i>Individual Responsible for Implementation: James Mauldin, Associate Vice Chancellor for Treasury</i></p>

**▲ 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>

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

<b>What We Found</b>	The format and content of quarterly investment reports is not consistent across all institutions. UNT and UNTHSC includes cash in the report while UNT Dallas and UNT System do not. Additionally, the quarterly investment report presentation format used by UNTHSC is not consistent with the format used by UNT System, UNT, and UNT Dallas.
<b>Why the Issue is Important</b>	It is important to have quarterly investment report information presented in a consistent format with similar content to assist in investment comparison purposes, analysis, and for investment decision purposes by management and the Board of Regents.
<b>What is Causing the Issue</b>	UNT System, UNT, and UNT Dallas quarterly investment reporting format is being coordinated and completed by the Office of Treasury Services at the UNT System level; whereas, UNTHSC quarterly investment reports currently are coordinated and prepared at the component level.
<b>What is Expected or Required</b>	Reports of similar components should be consistent in terms of presentation format and content.
<b>What We Recommend</b>	<p>Recommendations for Associate Vice Chancellor for Treasury:</p> <ol style="list-style-type: none"> <li>16. Management should determine if cash should be included in the quarterly investment reports, and once defined apply methodology consistently for all institutions.</li> <li>17. Management should determine an appropriate reporting format and once established utilize the new format for all institutions.</li> </ol>
<b>What Action Management Commits to Do</b>	<p>Management has been aware of this need and has already targeted the implementation of a new format that will be standard across the System for the first report on Fiscal Year 2016.</p> <p><i>Expected Implementation Date: February 25, 2016</i></p> <p><i>Individual Responsible for Implementation: James Mauldin, Associate Vice Chancellor for Treasury</i></p>

**▲ Annual Review and Adoption of Financial Institutions – UNT System**

<b>What We Found</b>	There was no indication that Board of Regents reviewed and adopted a list of financial institutions for fiscal year 2015.
<b>Why the Issue is Important</b>	The annual review ensures that the financial institutions and brokers/dealers are reputable and suitable to engage in investment transactions with and for the System.
<b>What is Causing the Issue</b>	Lack of awareness of compliance requirement stated in System Regulation 08.2000.
<b>What is Expected or Required</b>	System Regulation 08.2000 Investment of System Funds, Section 2005, paragraph 10 Authorized Broker/Dealers states, "The Board of Regents must annually review and adopt a list of financial institutions and broker/dealers qualified and authorized to engage in investment transactions with and for the System."
<b>What We Recommend</b>	<p>Recommendation for Associate Vice Chancellor for Treasury:</p> <p>18. Establish procedures to ensure compliance with System Regulation 08.2000, Section 2005, paragraph 10 or review the System Regulation to see if requirement is applicable as is and make changes as necessary.</p>
<b>What Action Management Commits to Do</b>	<p>Management will review the regulation to determine appropriateness of the wording as this is not a requirement in the Public Funds Investment Act. Based upon the findings, either the regulation will be revised or procedures will be modified to ensure compliance.</p> <p><i>Expected Implementation Date: November 30, 2016</i></p> <p><i>Individual Responsible for Implementation: James Mauldin, Associate Vice Chancellor for Treasury</i></p>

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**▲ 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>	<p>Recommendation for UNTHSC Vice President of Finance and Planning:</p> <p>19. Management should update the website to reflect System Regulation 08.2000 and revisions made should be communicated to appropriate personnel.</p>
<b>What Action Management Commits to Do</b>	<p>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 required investment disclosures on the institution's website.</p> <p><i>Expected Implementation Date: May 1, 2016</i></p> <p><i>Individual Responsible for Implementation: Debra Willett, UNTHSC Director Financial Planning &amp; Policy Analysis</i></p>