

## PROJECT PERFORMED

Internal Audit completed an audit of fiscal year 2013 investments for UNTHSC. The project was part of the Board of Regents approved work plan and required by UNT System Regulation 08.2000, Investment of System Funds. The objective was to perform a compliance review of management controls over investing activities as well as adherence with System Regulation 08.2000, UNT System Board of Regent Rule 10.100, and the Public Funds Investment Act (PFIA) including State Auditor's Office (SAO) Article III, Rider 5, reporting requirements.

To accomplish the objectives, Internal Audit performed the following procedures:

- Determined whether investment transactions were compliant with UNT System Regulation 08.2000, Regents Rule 10.100, the PFIA, and with SAO Article III, Rider 5, Reporting Requirements;
- Verified that investments were adequately and appropriately inventoried and safeguarded; and
- Reviewed the recording and reporting of investment transactions for accuracy and general compliance of investment reports submitted to the UNT System Board of Regents.

The project was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

## 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.

UNTHSC is generally in compliance with the PFIA, Regents Rule 10.100, and UNT System Regulation 08.2000. In addition, UNTHSC is generally in compliance with state higher education investment reporting requirements including SAO Article III, Rider 5 Requirements. Issues identified by Internal Audit are highlighted in the report.

Internal Audit's review included the following areas:

### Compliance

- A revised UNT System Regulation 08.2000 was presented for Board approval in December 2013, and each institution has posted a copy of the newly approved regulation on their respective Investment Disclosure website.
- The portfolio was diversified and liquid, and investments were in compliance with the provisions outlined by the PFIA and UNT System Regulation.
- 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.

### Reporting

- The August 31, 2013, annual and quarterly investment reports were reviewed for accuracy. All amounts, including market value, book value, and interest earned, were traced to UNTHSC records and supporting documentation. All information reported was materially accurate.
- The reports were prepared in accordance with the PFIA.

**Yellow** *Full Investment Disclosure Regarding Use of Investment Advisor* – UNTHSC did not include disclosure of an external investment advisor in response to the SAO's disclosure requirement question.

Recommended action for the Senior Vice President of Finance and Chief Finance Officer:

1. Update the UNTHSC website investment disclosure to document use of an external advisor or managers pertaining to the use of the UNTHSC Foundation as an external investment advisor or manager.

**Green** *Posting of Quarterly Reports to Website* – The first three quarterly investment reports for fiscal year 2013 were not published to the institution's website within the timeframe required by the SAO.

Recommended action for Director of Financial Reporting:

2. Publish Quarterly Investment Reports to the institution's website within 90 days after the end of the quarter or 7 days after the investment report is presented to the Board, whichever occurs first.

**Green** *Submitting the Annual Tracking Report* – UNTHSC Annual Tracking Report for Investment Reporting for fiscal year 2012 was not submitted within the timeframe required by the SAO.

Recommended action for Director of Financial Reporting:

3. Send the Annual Tracking Report for Investment Reporting to the SAO by December 31 of each year.

### Inventory and Safeguarding

- All funds are managed through Board approved agencies.
- Neither the Investment Officer nor his designee disclosed any personal or business interest that conflicted with their official job duties related to investment activities and responsibilities.
- Bank deposits were secured by pledged collateral and state or federal guaranties.
- Employees with signature authority were properly designated and were current employees with the exception of one former employee as noted below.

 *Fully Executed Bank Depository Agreement* – UNTHSC does not have a current executed bank depository agreement with JPMorgan Chase.

Recommended action for the Senior Vice President of Finance and Chief Finance Officer:

4. Finalize and fully execute the UNTHSC Bank Depository Agreement with JPMorgan Chase.

 *Management Agreement for Medical Professional Liability Self-Insurance Funds* - UNTHSC does not have a management agreement with the UNTHSC Foundation to manage the UNTHSC Medical Professional Liability Self-Insurance Funds.

Recommended action for the Senior Vice President of Finance and Chief Finance Officer:

5. Execute a new exhibit to the current agreement with the UNTHSC Foundation to include the management of Medical Professional Liability Self-Insurance Funds.

 *Removal of an Employee from Bank Accounts* – Signatory authority for the former UNTHSC Vice President of Finance and CFO was not removed from the bank account until ten months after he left his position.

Recommended action for the Controller and Chief Budget Officer:

6. Develop a process to ensure that banking signatory authority cards are updated immediately to accurately reflect changes to personnel and only individuals with proper authority are active.

Management committed to action plans related to each recommendation above.

Audit performed by: Michael Humphries, MBA, CIA, CFE, CMA, Senior Auditor

Audit reviewed by: Joseph Diaz, CIA, CFE, Interim Director

For more information, contact us by email at [internalaudit@untsystem.edu](mailto:internalaudit@untsystem.edu) or by phone at 940.565.2153.

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**Observations  
with  
Management's Responses**

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**Annual UNTHSC Investment Review  
Audit No. 14-002 HSC**

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**■ Full Investment Disclosure Regarding Use of Investment Advisor**

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<b>What We Found</b>	<p><b>UNTHSC did not include disclosure of an external investment advisor in response to the SAO's disclosure requirement question.</b></p> <p>UNTHSC answered "no" to the question "Does the institution employ outside investment advisors or managers." However, the response should be revised to yes, since the UNTHSC uses the UNTHSC Foundation for management of its endowment funds.</p>
<b>Why the Issue is Important</b>	<p>Regulatory investment reporting requirements specify that higher education institutions answer three investment-related questions. The question pertaining to the use of external investment advisors or managers informs the public as to who is actually managing and investing University funds. Response to this question will provide appropriate investment disclosure.</p>
<b>What is Causing the Issue</b>	<p>The interpretation to consider and respond that the UNTHSC Foundation is not an outside external advisor/manager entity.</p>
<b>What is Expected or Required</b>	<p>The SAO requirements, including Article III Rider 5 reporting requirements, require all higher education institutions to post on their website their responses to three investment related questions. One of the questions asks whether there is the use of external investment advisors or managers.</p>
<b>What We Recommend</b>	<p>Recommended action for Senior Vice President of Finance and Chief Finance Officer:</p> <ol style="list-style-type: none"><li>1. Update the UNTHSC website investment disclosure to document use of an external advisor or managers pertaining to the use of the independent UNTHSC Foundation as an external investment advisor or manager.</li></ol> <p>Compliance will ensure that regulatory reporting requirements are met and responses to requires questions have been properly noted.</p>
<b>What Action Management Commits to Do</b>	<p><i>Management agrees with recommendation. Management will update its website investment disclosures to reflect that UNTHSC uses and external advisor/manager, the UNTHSC Foundation, for management of some endowment funds.</i></p> <p><i>Expected Implementation Date: February 15, 2014</i></p> <p><i>Individual Responsible for Implementation: Geoffrey Scarpelli, Controller and Chief Budget Officer</i></p>

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**■ Submitting the Annual Tracking Report**

<b>What We Found</b>	<p><b>UNTHSC Annual Tracking Report for Investment Reporting for fiscal year 2012 was not submitted within the timeframe required by the SAO.</b></p> <p>The Annual Tracking Report for Investment Reporting sends investment website locations to the SAO. For fiscal year 2012, the report was not submitted to the SAO until February 1, 2013.</p> <p>The fiscal year 2013 annual tracking report was submitted on December 11, 2013.</p>
<b>Why the Issue is Important</b>	<p>Following SAO guidelines helps UNTHSC meet reporting requirements of the PFIA and Rider 5 of the General Appropriations Act.</p>
<b>What is Causing the Issue</b>	<p>Because this is a new process, there was a misunderstanding of who should send the report to the SAO.</p>
<b>What is Expected or Required</b>	<p>The SAO website states that “an Annual Tracking Report for Investment Reporting by Higher Education Institutions . . . should [be] submit to the SAO by December 31 of each year to satisfy [the institutions] Rider 5 reporting requirements to the SAO.”</p>
<b>What We Recommend</b>	<p>Recommended action for Director of Financial Reporting:</p> <ol style="list-style-type: none"> <li>3. Send the Annual Tracking Report for Investment Reporting to the SAO by December 31 of each year.</li> </ol> <p>Implementation will help ensure that Rider 5 reporting requirements are met.</p>
<b>What Action Management Commits to Do</b>	<p><i>Management agrees with recommendation. Management will implement procedures to ensure that the Annual Tracking Report for Investment Reporting is submitted to the SAO by December 31st of each year.</i></p> <p><i>Expected Implementation Date: Previously Implemented</i></p> <p><i>Individual Responsible for Implementation: Geoffrey Scarpelli, Controller and Chief Budget Officer</i></p>

**▲ Fully Executed Bank Depository Agreement**

<b>What We Found</b>	<p><b>UNTHSC does not have a current executed bank depository agreement with JPMorgan Chase.</b></p> <p>The current depository for UNTHSC is JPMorgan Chase. The bank depository agreement with JPMorgan Chase expired on August 31, 2012. The expired agreement states: "The term may be extended until such time as the successor shall have been duly selected and qualified, such extension not to exceed 60 days."</p> <p>According to the Chief Finance Officer of UNTHSC, a draft agreement has been completed, but the agreement has not been executed.</p>
<b>Why the Issue is Important</b>	<p>The bank depository agreement sets collateral requirements and fees charged by the bank for institutional funds. Without an executed bank depository agreement expected collateral may not be maintained and bank fees may be excessive.</p>
<b>What is Causing the Issue</b>	<p>A new agreement was not initiated prior to the end of the term of the agreement because management believed there was an automatic extension clause in place. Subsequently, a new agreement has been drafted but is in the contract approval process and has not been completed, signed and executed at the time of this review.</p>
<b>What is Expected or Required</b>	<p>Management should initiate and draft a new agreement prior to the end of the term for the previous agreement. At the May 2013 Board of Regents meeting, the Board gave "authority to the Chancellor or designee to execute contracts with Wells Fargo Bank and J.P. Morgan Chase Bank for a three year period beginning September 1, 2013, plus two renewal periods of one year each."</p>
<b>What We Recommend</b>	<p>Recommended action for Senior Vice President of Finance and Chief Finance Officer:</p> <p>4. Finalize and fully execute the UNTHSC Bank Depository Agreement with JPMorgan Chase.</p> <p>Implementation will help ensure that BOR expectations are met, bank deposits are safeguarded, and any favorable terms are in force.</p>
<b>What Action Management Commits to Do</b>	<p><i>Management agrees with recommendation. Although the written agreement between J.P. Morgan Chase Bank expired in 2012, the parties have continued to operate under the agreement with the same terms until the new contract can be finalized.</i></p> <p><i>Management will continue to work with the Office of General Counsel to finalize the written agreement.</i></p> <p><i>Expected Implementation Date: April 1, 2014</i></p> <p><i>Individual Responsible for Implementation: John A. Harman, Senior Vice President for Finance and CFO</i></p>

**▲ Management Agreement for Medical Professional Liability Self-Insurance Funds**

<b>What We Found</b>	<p>UNTHSC does not have a Management Agreement with the UNTHSC Foundation to manage UNTHSC Medical Professional Liability Self-Insurance Funds.</p> <p>UNTHSC has an executed management agreement with the UNTHSC Foundation for the management of institutional tobacco funds, but this agreement does not include the management of Medical Professional Liability Self-Insurance Funds.</p>
<b>Why the Issue is Important</b>	Without a management agreement, specific written directions have not been provided directing the UNTHSC Foundation on how the investments should be properly safeguarded or invested.
<b>What is Causing the Issue</b>	The current management agreement with UNTHSC Foundation does not include the management of UNTHSC Medical Professional Liability Self-Insurance Funds.
<b>What is Expected or Required</b>	BOR Regulation 08.2005 (7) (b), Investment Management Agreement, states, "Investment management services provided by a Managing Entity . . . shall be administered only through a contractual agreement (Investment Management Agreement) with the System or an Institution."
<b>What We Recommend</b>	<p>Recommended action for Senior Vice President of Finance and Chief Finance Officer:</p> <p>5. Execute a new exhibit to the current agreement with the UNTHSC Foundation to include the management of Medical Professional Liability Self-Insurance Funds.</p> <p>Implementation will help ensure that Medical Professional Liability Self-Insurance Funds are adequately safeguarded and invested.</p>
<b>What Action Management Commits to Do</b>	<p><i>Management agrees with recommendation. Prior to January 17, 2014 an Exhibit did not exist. However, management executed Exhibit C to the Investment Management Agreement between the UNTHSC and the UNTHSC Foundation on January 17th for the management of the Medical Professional Liability Self Insurance Funds.</i></p> <p><i>The change in institutional Finance leadership in early FY2013 may have contributed to the delay in submittal since funds were initially invested with the Foundation prior to the transition in leadership.</i></p> <p><i>Expected Implementation Date: Previously Implemented.</i></p> <p><i>Individual Responsible for Implementation: John A. Harman, Senior Vice President for Finance and CFO</i></p>

**●** *Removal of an Employee from Bank Accounts*

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<b>What We Found</b>	<p><b>Signatory authority for the former UNTHSC Vice President of Finance and CFO was not removed from the bank account until ten months after he left his position.</b></p> <p>The former Vice President of Finance and CFO for UNTHSC remained with signatory authority over ten months while not in a role to warranting that authority.</p>
<b>Why the Issue is Important</b>	<p>Without appropriate safeguards on bank accounts, individuals without current authorized signatory authority could access the accounts.</p>
<b>What is Causing the Issue</b>	<p>At the time the individual's authority was changed, only the new CFO was added to the signatory card – no individuals were removed. The individual responsible for the removal of signature authority did not ensure that the bank signatory authority changes were promptly made with all personnel changes.</p>
<b>What is Expected or Required</b>	<p>Timely removal of authorized signers is expected in order to give reasonable assurance the HSC is safeguarding its assets.</p>
<b>What We Recommend</b>	<p>Recommended actions for Controller and Chief Budget Officer:</p> <ol style="list-style-type: none"><li>6. Develop a process to ensure that banking signatory authority cards are updated immediately to accurately reflect changes to personnel and only individuals with proper authority are active.</li></ol> <p>Implementation will help ensure funds are adequately safeguarded and controlled.</p>
<b>What Action Management Commits to Do</b>	<p><i>Management agrees with recommendation. Management will work with system business service center and commercial banking personnel to ensure that banking signature cards submitted for changes in authorized personnel are updated in the electronic signature system in a timely fashion and only individuals with proper authority are active.</i></p> <p><i>Expected Implementation Date: March 1, 2014</i></p> <p><i>Individual Responsible for Implementation: Geoffrey Scarpelli, Comptroller and Chief Budget Officer</i></p>

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