

PROJECT PERFORMED

For fiscal year 2017, 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 and efficient; 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.

The project was 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 and **Yellow** indicates a Moderate 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, we noted improvements from prior years which include implementation of a consistent format for quarterly investment reports, maintenance of accurate and complete reports, maintenance of proper collateralization for deposits, and implementation of a conflict of interest process.

The observation identified during the review is summarized below:

● 1. **Unauthorized Sweep Investment Vehicles**

UNT System, UNT, and UNT Dallas held repurchase agreements with Wells Fargo Bank as sweep investment vehicles during FY2017. However, this is specifically prohibited by the Master Depository and Banking Services Agreement between UNT System and Wells Fargo Bank. The total balance in the repurchase account at August 31, 2017 was \$7,665,644.

During the audit we reviewed repurchase agreements for compliance with requirements of UNT System Regulation 08.2000-Investment of System Funds. We noted all existing repurchase agreements were signed in July 2014, which predated the signing of the Master Depository and Banking Services Agreement of August 2015. Upon further review of the of the Master Depository and Banking Services Agreement, section 4 'Consolidated Account Structure with Sweep Mechanism' stated repurchase agreements were not acceptable as sweep investment vehicles. This contradicted the existing process where UNT System, UNT and UNT Dallas utilized repurchase agreements as their sweep mechanism.

Furthermore, there is an inconsistency between the Master Depository and Banking Services Agreement which prohibits the use of repurchase agreements, and UNT System Regulation 08.2000 which allows investing in fully collateralized repurchase agreements.

1. Recommendations for the Associate Vice Chancellor for Treasury and Reporting:
 - a. Work with the Office of General Counsel to review the current Master Depository and Banking Services Agreements to ensure they are aligned with UNT System Regulation 08.2000 and current practices.

- b. Based on the review in recommendation 'a', resolve and ensure new agreements are fully executed by all the relevant parties.

● 2. *Accrued Investment Interest Income not Recorded in the General Ledger*

There were 2 out of 4 instances where accrued investment interest income for UNTHSC at August 31, 2017, totaling \$22,683, was not recorded in the general ledger.

During the audit we reviewed the accuracy, existence and valuation of the asset balances in the investment reports at August 31, 2017 by vouching the amounts to the investment and bank statements. Furthermore, to test the completeness of investment amounts in the financial statements, we traced the balances from the investment report to the general ledger. We identified 2 out of 4 instances; TexasTerm – Term CP (maturity 9/15/2017) \$3,222, and TexasTerm – CP Proceeds – Term CP (maturity 12/26/2017) \$19,461 where accrued investment

interest income was not recorded in the general ledger.

1. Recommendations for the UNTHSC Associate Controller:
 - a. Identify the journal entries needed to correct the unrecorded amount of \$22,683, and post them to the general ledger.
 - b. Develop a process to ensure that information in the quarterly investment reports from UNT System Treasury is reconciled to the general ledger at the end of each quarter.

Audit performed by: Gregory Kigen, Senior Financial Auditor and Elise Metougue, Senior Internal Auditor

Audit reviewed by: Sheba Joyner, Senior Director of Internal Audit

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Observations with Management's Responses

**Investments Audit
Audit No. 18-005 SYS/UNT/DAL/HSC**

1. Unauthorized Sweep Investment Vehicles

What We Found

UNT System, UNT, and UNT Dallas held repurchase agreements with Wells Fargo Bank as sweep investment vehicles during fiscal year 2017. However, this is specifically prohibited in the Master Depository and Banking Services Agreement between UNT System and Wells Fargo Bank. The total balance in the repurchase account at August 31, 2017 was \$7,665,644.

During the audit we reviewed repurchase agreements for compliance with requirements of UNT System Regulation 08.2000-Investment of System Funds. We noted all existing repurchase agreements were signed in July 2014, which predated the signing of the Master Depository and Banking Services Agreement of August 2015. Upon further review of the of the Master Depository and Banking Services Agreement, section 4 'Consolidated Account Structure with Sweep Mechanism' stated repurchase agreements were not acceptable as sweep investment vehicles. This contradicted the existing process where UNT System, UNT and UNT Dallas utilized repurchase agreements as their sweep mechanism.

Furthermore, there is an inconsistency between the Master Depository and Banking Services Agreement which prohibits the use of repurchase agreements, and UNT System Regulation 08.2000 which allows investing in fully collateralized repurchase agreements.

Why the Issue is Important

Agreements are binding to the University; therefore, when they are not reviewed for consistency with University System Regulation and existing processes, it will potentially result in non-compliance with University and State Regulations. Additionally, it will increase the risk of asset loss as a result of investing in risky investments not authorized under UNT System Regulation 08.2000.

What is Causing the Issue

The review process in place was not sufficient to ensure the Master Depository and Banking Services Agreement aligned with UNT System Regulation and existing processes.

What is Expected or Required

The Master Depository and Banking Services Agreement, under "Exhibit B-Banking Services" prohibits the use of repurchase agreements, it states:

"4. Consolidated Account Structure with Sweep Mechanism

Repurchase agreements or surety bonds are not acceptable as sweep investment vehicles and will not be considered as an alternative. In addition, letters of credit and surety bonds will not be considered acceptable collateral."

However, System Regulation 08.2000, under section 08.2005, subsection #2 Short Term Pool (STP) allows investing in fully collateralized repurchase agreements, it states:

“a. Authorized Investments.

- i. fully collateralized repurchase agreements or demand accounts deposited with an approved depository institution”

What We Recommend

Recommendations for the Associate Vice Chancellor for Treasury and Reporting:

- a. Work with the Office of General Counsel to review the current Master Depository and Banking Services Agreements to ensure they are aligned with UNT System Regulation 08.2000 and current practices.
- b. Based on the review in recommendation ‘a’, resolve and ensure new agreements are fully executed by all the relevant parties.

**What Action
Management Commits
to Do**

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

1a. Management will work with the Office of General Counsel to review the current Master Depository and Banking Services Agreements to ensure they are aligned with UNT System Regulation 08.2000 and current practices.

1b. Management will resolve and ensure new agreements are fully executed by all the relevant parties.

Expected Implementation Date: January 31, 2018

2. Accrued Investment Interest Income not Recorded in the General Ledger

What We Found **There were 2 out of 4 instances where accrued investment interest income for UNTHSC at August 31, 2017, totaling \$22,683, was not recorded in the general ledger.**

During the audit we reviewed the accuracy, existence and valuation of the asset balances in the investment reports at August 31, 2017 by vouching the amounts to the investment and bank statements. Furthermore, to test the completeness of investment amounts in the financial statements, we traced the balances from the investment report to the general ledger. We identified 2 out of 4 instances; TexasTerm – Term CP (maturity 9/15/2017) \$3,222, and TexasTerm – CP Proceeds – Term CP (maturity 12/26/2017) \$19,461 where accrued investment interest income was not recorded in the general ledger.

Why the Issue is Important When proper reconciliation is not performed, there is an increased likelihood of loss of revenue to the University. Additionally, when accruals are not properly recorded and monitored, there is increased risk of non-compliance with State Statutes and Regulations, and Governmental Accounting Standards Board (GASB).

What is Causing the Issue UNT System Regulation was not followed to ensure that balances in the investment reports reconciled to those in the general ledger.

What is Expected or Required UNT System Regulation 08.5000: Reconciling and Verifying General Ledger Accounts and Other Financial Information states:

“08.5003 Definitions.

2. Reconciliation. “Reconciliation” means the process of comparing information that exists in two systems or locations, analyzing differences and making corrections so that the information is accurate, complete and consistent in both systems or locations. For financial reporting purposes, the process includes validating the local unit’s independent record of financial information and comparing the information to the General Ledger.”

“08.5004 Procedures and Responsibilities.

1. Reconciliations should be performed to agree General Ledger account balances to independent sources and to agree General Ledger account balances to subsidiary systems (i.e. all transactions submitted by the subsidiary system have been sent and accepted by the General Ledger system or any other financial system as intended and designed). If any differences are identified they should be thoroughly documented and explained. Differences can be the result of timing, changes in estimates, misclassifications, accounting practices, un-posted items, or errors. Appropriate actions should be taken to correct differences.

6. The reconciliation process should include a comparison of activity between the sub ledger (i.e. data from the subsidiary systems), or supporting spreadsheet and the general ledger, resolution of unreconciled items and manager Review. Accounts should be reconciled systematically with the utilization of system generated reports and processes whenever possible and manually reconciled as needed.”

Texas Comptroller of Public Accounts in its website states:

“Agency Requirement for the Government-wide Financial Statements (GWFS)

The GWFS must be presented on a full accrual basis of accounting for both governmental and proprietary fund types for the CAFR and for stand-alone or audited reports.”

What We Recommend

Recommendations for the UNTHSC Associate Controller:

- a. Identify the journal entries needed to correct the unrecorded amount of \$22,683, and post them to the general ledger.
- b. Develop a process to ensure that information in the quarterly investment reports from UNT System Treasury is reconciled to the general ledger at the end of each quarter.

**What Action
Management Commits
to Do**

Individual Responsible for Implementation: Paula Welch, UNTHSC Associate Controller:

2a. The journal entries needed to correct the unrecorded amounts have been identified and will be posted to the general ledger.

2b. The reconciliation process will be reviewed and updated to ensure quarterly investment reports are reconciled to the general ledger at least quarterly.

Expected Implementation Date: February 28, 2018
