

PROJECT PERFORMED

For fiscal year 2016, 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 were in compliance with state higher education investment reporting requirements including SAO Article III, Rider 5 requirements.

Overall, we noted significant improvements from prior year which includes implementation of consistent format for quarterly investment reports, maintenance of accuracy and completeness of reports, and maintenance of proper collateralization for deposits.

The observation identified during the review is summarized below:

● 1. **Conflict of Interest -SYS/UNT/DAL/HSC**

Testing identified all System Investment Advisory Committee members and component Investment Officers did not complete Conflict of Interest disclosure forms for FY 2016 indicating any personal business relations with a business organization offering to engage in an investment transaction with UNT System, UNT, UNT Dallas and UNTHSC.

This finding was also identified on last year's Internal Audit Report 16-004 UNT System, UNT, UNT Dallas and 16-009 UNTHSC FY 2015 Investment Compliance Audit in two separate observations.

UNT System Management concurred with Internal Audit's recommendations, but in order to establish a more comprehensive solution with the Office of General Counsel (OGC) and UNT System Human Resources, they were not able to fully implement a Conflict of Interest Disclosure process by the initial implementation date of August 31, 2016.

Furthermore, UNTHSC Management concurred with Internal Audit's recommendations and implemented a process, however due to employee turnover, the implemented monitoring process was not sustained.

1. Recommendations for the Associate Vice Chancellor for Treasury:

Ensure the following recommendations made in Internal Audit Report #16-004 UNT System, UNT, and UNT Dallas are implemented:

- a. 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.
- b. Implement a required annual conflict of interest training program to provide all employees who works with investments 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.

2. Recommendation for the UNTHSC Chief Financial Officer:
 - a. Work with the UNTHSC Institutional & Clinical Compliance Office to implement a monitoring process to ensure applicable staff completes an annual conflict of interest disclosure form.
3. Recommendation for the Associate Vice Chancellor for Treasury:
 - a. Implement a monitoring process to request confirmation from all institutions to ensure annual conflict of interest disclosure forms were completed by all investments officers and designees.

● 2. Board of Regents Public Funds Investment Act Training

Public Funds Investment Act (PFIA) testing identified two of the newly appointed Regents did not have PFIA training completed within six months after taking office or assuming duties. Based on our detail testing, trainings were completed by the Board of Regent members eight and ten months after taking office.

1. Recommendation to the Secretary to the UNTS Board of Regents:
 - a. Develop follow-up procedures to help ensure that Board of Regents complete PFIA required training session within six months after taking office of assuming duties in accordance with the statute.

● 3. Annual Review and Adoption of Financial Institutions

The Board of Regents has not reviewed and adopted a list of financial institutions and broker/dealers qualified and authorized to engage in investment transactions with and for the System.

This finding was also identified on last year's Internal Audit Report 16-004 UNT System, UNT, UNT Dallas and 16-009 UNTHSC FY 2015 Investment Compliance Audit.

UNT System Management concurred with Internal Audit's recommendations, but they were unable to implement the corrective actions by the initial implementation date of November 30, 2016 because a consulting firm was obtained to review treasury operations. Additionally, management communicated they will be implementing recommendations provided by the consulting firm and Internal Audit.

1. Recommendation for the Associate Vice Chancellor for Treasury:
 - a. Establish procedures to ensure compliance with System Regulation 08.2000, Section 2005, paragraph 10 and review the System Regulation to see if requirement is applicable as is and make revisions as necessary.

Audit performed by: Gregory Kigen, Auditor-in-Charge, Liana Hadjigeorgiou, Senior Internal Auditor, and John McDermott, 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. 17-005 SYS/UNT/DAL/HSC**

1. Conflict of Interest – SYS/UNT/DAL/HSC

What We Found

Testing identified that all of System Investment Advisory Committee members and component Investment Officers did not complete Conflict of Interest disclosure forms for FY 2016 indicating any personal business relations with a business organization offering to engage in an investment transaction with UNT System, UNT, UNT Dallas and UNTHSC.

This finding was also identified on last year's Internal Audit Report 16-004 UNT System, UNT, UNT Dallas and 16-009 UNTHSC FY 2015 Investment Compliance Audit in two separate observations.

UNT System Management concurred with Internal Audit's recommendations, but in order to establish a more comprehensive solution with the Office of General Counsel (OGC) and UNT System Human Resources, they were not able to fully implement a Conflict of Interest Disclosure process by the initial implementation date of August 31, 2016.

Furthermore, UNTHSC Management concurred with Internal Audit's recommendations and implemented a process, however due to employee turnover, the implemented monitoring process was not sustained.

Why the Issue is Important

Without a process in place there is increased risk of:

- Non-compliance with UNT System regulation 08.2000, Ethics policies, and PFIA requirements;
- Conflict of interest or personal gain going undisclosed;
- Potential negative publicity to UNT System and its institutions.

What is Causing the Issue

The internal controls within the existing review process were insufficient to ensure reviews performed identified control deficiencies.

What is Expected or Required

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:

- 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;
 - 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

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.”

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.”

UNT System Ethics Policy #03.701 Section 2 states:

“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.

f) No staff member shall hold financial interests that are in conflict with the conscientious performance of his or her official duties and responsibilities.

i) No staff member shall use his or her public office or position for private gain.”

UNT Ethics Policy #05.015 Section I states:

“d) 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.

f) 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.

i) No faculty or staff member shall use his or her public office or position for private gain.”

UNT Dallas Employee Ethics and Standards of Employee Conduct 5.007 Section 1 states:

“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.

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.”

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.”

What We Recommend**1. Recommendations for the Associate Vice Chancellor for Treasury:**

Ensure the following recommendations made in Internal Audit Report #16-004 UNT System, UNT, UNT Dallas are implemented:

- a. 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.
- b. Implement a required annual conflict of interest training program to provide all employees who works with investments 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.

2. Recommendation for the UNTHSC Chief Financial Officer:

- a. Work with the UNTHSC Institutional & Clinical Compliance Office to implement a monitoring process to ensure applicable staff complete an annual conflict of interest disclosure form.

3. Recommendation for the Associate Vice Chancellor for Treasury:

- a. Implement a monitoring process to request confirmation from all institutions to ensure annual conflict of interest disclosure forms were completed by all investments officers and designees.

**What Action
Management Commits
to Do**

Individuals Responsible for Implementation: James Mauldin, Associate Vice Chancellor for Treasury and Gary Finney, Director of Human Resources

1a. Currently, we have the approved form for investment officers to sign certifying that there are no COI's, which will be sent out to each investment officer by the end of January 2017.

1b. We are developing slide(s) for Human Resources to incorporate into their orientation training, which should be completed and approved by Friday, January 27, 2017 at the latest. Human Resources will then incorporate this aspect into their "compliance day" training.

Expected Implementation Date: June 1, 2017

Individual Responsible for Implementation: Elaine Anderson, Interim Chief Compliance and Enterprise Risk Officer

2a. The Compliance office will ensure 100% of the forms are completed and returned for FY2017 and future years. Any forms not returned by the due date (January 31st for FY 2017) will be followed up by the Compliance office shortly after January 31st with prompt escalation to supervisors and senior management, if needed. Any person not completing the form after follow-up by Compliance department will be subject to disciplinary action up to and including termination.

Expected Implementation Date: March 31, 2017

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

3a. Going forward, annually a process will be in place to request confirmation from all institutions that annual conflict of interest disclosure forms were completed by all investments officers and designees.

Expected Implementation Date: March 31, 2017

2. Board of Regents Public Funds Investment Act Training

What We Found Public Funds Investment Act (PFIA) testing identified two of the newly appointed Regents did not have PFIA training completed within six months after taking office or assuming duties. Based on our detail testing, trainings were completed by the Board of Regent members eight and ten months after taking office.

Why the Issue is Important When Public Funds Investment Act training is not completed within the required timeframe provided by the statute, it may increase the risk of unfamiliarity with the subject.

What is Causing the Issue The internal controls within the existing review process were insufficient to ensure reviews performed identified control deficiencies.

What is Expected or Required Texas Government Code Section 2256.007(a) Investment Training; State Agency Board Members and Officers states:

"Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties."

What We Recommend 1. Recommendation to the Secretary to the UNTS Board of Regents:

a. Develop follow-up procedures to help ensure that Board of Regents complete PFIA required training session within six months after taking office of assuming duties in accordance with the statute.

What Action Management Commits to Do *Individual Responsible for Implementation: Dr. Rosemary Haggett, Secretary to the UNTS Board of Regents*

1a. The Office of the Board Secretary will create a tracking system that will be used to monitor the completion of the variety of required trainings for new Regents. The tracking system will include the training required, required completion date, when reminder emails are sent, and when training was completed.

Expected Implementation Date: June 30, 2017

3. Annual Review and Adoption of Financial Institutions and Broker/Dealers

What We Found The Board of Regents has not reviewed and adopted a list of financial institutions and broker/dealers qualified and authorized to engage in investment transactions with and for the System.

This finding was also identified on last year's Internal Audit Report 16-004 UNT System, UNT, UNT Dallas and 16-009 UNTHSC FY 2015 Investment Compliance Audit.

UNT System Management concurred with Internal Audit's recommendations, but they were unable to implement the corrective actions by the initial implementation date of November 30, 2016 because a consulting firm was obtained to review treasury operations. Additionally, management communicated they will be implementing recommendations provided by the consulting firm and Internal Audit.

Why the Issue is Important The annual review ensures the financial institutions and brokers/dealers are reputable and suitable to engage in investment transactions with and for the System.

What is Causing the Issue This was originally due to lack of awareness of the compliance requirement stated in System Regulation 08.2000 which was reported on last year's Internal Audit Report 16-004 UNT System, UNT, UNT Dallas and 16-009 UNTHSC FY 2015 Investment Compliance Audit.

What is Expected or Required 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."

What We Recommend 1. Recommendation for the Associate Vice Chancellor for Treasury:

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

What Action Management Commits to Do *Individual Responsible for Implementation: James Mauldin, Associate Vice Chancellor for Treasury*

1a. The investment policy will be revised to reflect that only the list of broker/dealers requires Board of Regents approval. This revision and the list of broker/dealers will be provided to the Board of Regents for review and approval at the May 2017 Board of Regents meeting.

Expected Implementation Date: June 30, 2017
