

## **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

**Observations**  
**Investments Audit**  
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responsibilities related to conflict of interest and steps they would need to take in the event of a concern.



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**Observations  
with  
Management's Responses**

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**Observations**  
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**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 16009 UNTHSC FY 2015 Investment Compliance Audit

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:

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**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.

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*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*

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

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**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 16009 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.

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**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**