

# The Texas A&M University System Internal Audit Department



Monthly Audit Report  
May 12, 2021

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Treasury Services – Cash and Investments



System Internal Audit  
THE TEXAS A&M UNIVERSITY SYSTEM

**THE TEXAS A&M UNIVERSITY SYSTEM**

**TREASURY SERVICES – CASH AND  
INVESTMENTS**

**May 12, 2021**

**Charlie Hrncir, CPA  
Chief Auditor**

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**Project #20210108**



## Overall Conclusion

Internal controls over cash and investments at Treasury Services are operating as intended and in compliance with applicable laws and policies.

Treasury Services is responsible for investment management strategy and implementation for the A&M System. Treasury Services manages the A&M System’s operating and endowment funds, as well as the banking activities. Investments managed by Treasury Services were valued at approximately \$5.8 billion as of August 31, 2020.

### Summary Table

<b>Audit Areas</b>	<b>Controls Assessment</b>
Cash Settlement and Collateralization Monitoring	Effective – No Observations
Compliance Monitoring	Effective – No Observations
Custodian Reports	Effective – No Observations
Investment Month-end Entries	Effective – No Observations
Investment Manager Selection Process	Effective – No Observations
Investment Manager Meetings	Effective – No Observations
Reporting – Annual Financial Report	Effective – No Observations
Reporting - Board of Regents Reports	Effective – No Observations
Reporting – Annual Investment Report	Effective – No Observations
Segregation of Duties	Effective – No Observations

## Basis of Audit

### Objective, Scope, & Methodology

The overall objective of this audit was to determine if internal controls over cash and investments at Treasury Services are working as intended and in compliance with applicable laws and policies.

The audit focused on the following areas:

- Cash settlement and collateralization monitoring
- Compliance monitoring
- Custodian reports
- Investment month-end entries
- Investment manager selection process
- Investment manager meetings
- Reporting – Annual Financial Report
- Reporting – Board of Regents reports
- Reporting – Annual Investment Report
- Segregation of duties

The audit period was primarily September 1, 2019 to August 31, 2020. Fieldwork was conducted from February 2021 to April 2021.

Our audit methodology included interviews, observation of processes, review of documentation, and testing of data using sampling as follows:

Audit Objective	Methodology
<p><u>Cash Settlement and Collateralization Monitoring</u></p> <p>Determine if procedures are in place to perform and account for daily cash settlement activity and monitor depository collateralization requirements.</p>	<p>Auditors obtained documentation for the daily cash settlement and collateralization monitoring for June 30, 2020. Documentation was reviewed for the following:</p> <ul style="list-style-type: none"> <li>• Reasonableness</li> <li>• Accuracy of settlement transaction calculations</li> <li>• Collateralization determination</li> <li>• Transaction verification and tracking of member activity in the short-term cash</li> </ul>

Audit Objective	Methodology
	<p>concentration pool by the System Office of Budgets and Accounting.</p>
<p><u>Compliance Monitoring</u></p> <p>Determine if investment asset allocations, ratings, and other investment requirements are monitored for compliance with system policy and manager agreements per departmental procedures.</p>	<p>Auditors reviewed the A&amp;M System’s investment consultant’s quarterly report to the Board of Regents for June 30, 2020 for inclusion of specified performance evaluations and compliance summary. Auditors also reviewed the consultant’s full compliance evaluation.</p> <p>Auditors used professional judgment to select a nonstatistical sample of three active investment managers. The monthly monitoring reports were obtained to ensure letters of instruction requirements were monitored and any exceptions were reviewed and documented in compliance with departmental procedures.</p>
<p><u>Custodian Reports</u></p> <p>Determine if custodian System and Organization Control Reports are monitored.</p>	<p>Auditors obtained the two 2020 System and Organization Controls Reports for the A&amp;M System’s investment custodian. Reports were reviewed to determine if deficiencies were identified and if so, appropriately addressed.</p>
<p><u>Investment Month-end Entries</u></p> <p>Determine if processes are in place to record investment activity and reconcile to the accounting system.</p>	<p>Auditors reviewed supporting documentation for monthly entries to the financial accounting system for the cash concentration pool for June 2020.</p> <p>Auditors reviewed supporting documentation for quarterly entries to the financial accounting system for the system endowment fund for May 2020.</p>

Audit Objective	Methodology
<p><u>Investment Manager Selection Process</u></p> <p>Determine compliance with departmental procedures for the selection of investment managers.</p>	<p>Auditors used professional judgment to select a nonstatistical sample of two investment managers contracted during the audit period. Documentation of the selection and approval process was reviewed for compliance with departmental procedures.</p>
<p><u>Investment Manager Meetings</u></p> <p>Determine if investment manager meetings are performed in compliance with departmental procedures.</p>	<p>Auditors used professional judgment to select a nonstatistical sample of 15 investment managers. Meeting documentation was reviewed to ensure meetings occurred, were documented, and in compliance with departmental procedures.</p>
<p><u>Reporting - Annual Financial Report</u></p> <p>Determine if the Annual Financial Report regarding investments is accurate and in compliance with guidelines.</p>	<p>Auditors obtained the following investment-related notes of the fiscal year 2020 Annual Financial Report:</p> <ul style="list-style-type: none"> <li>• Note 3 - Deposits, Investments, and Repurchase Agreements</li> <li>• Note 7 - Derivatives</li> <li>• Note 15 - Commitments and Contingencies</li> </ul> <p>For the above notes, auditors performed the following:</p> <ul style="list-style-type: none"> <li>• Reviewed the supporting documentation for the amounts presented in the notes</li> <li>• Reviewed calculations for accuracy</li> <li>• Tied relevant amounts to other statements, notes or schedules in the Annual Financial Report</li> <li>• Compared the presentation to the State Comptroller’s Reporting Requirements for</li> </ul>

Audit Objective	Methodology
	Annual Financial Reports of State Agencies and Universities for compliance
<p><u>Reporting - Annual Investment Report</u></p> <p>Determine if investment reports and disclosures are posted as required by the General Appropriations Act (86<sup>th</sup> Legislature), Article III, section 6, Rider 5 and State Auditor’s Office guidelines.</p>	<p>Auditors obtained the fiscal year 2020 Annual Investment Report. The report was agreed to supporting schedules used for the Annual Financial Report note disclosures. The Annual Investment Report presentation was compared to State Auditor’s Office reporting requirements for compliance. The Treasury Services’ website was reviewed for posting of required reports and disclosures.</p>
<p><u>Reporting - Board of Regents Reports</u></p> <p>Determine if quarterly reports to the Board of Regents are accurate.</p>	<p>Auditors obtained the A&amp;M System’s investment consultant’s quarterly report to the Board of Regents for June 30, 2020. Auditors obtained documentation of Treasury Services’ review of the report and tied investment pool totals to custodial reports.</p>
<p><u>Segregation of Duties</u></p> <p>Determine if fund transfers are requested and approved per departmental procedures.</p>	<p>Auditors used professional judgment to select a nonstatistical sample of 15 banking transactions processed between June 2020 and August 2020. Banking transaction documentation was reviewed for proper approval, appropriate segregation of duties, and compliance with departmental procedures.</p>

Controls Assessment Classification

Audit areas highlighted in red in the Summary Table are considered to have significant weaknesses in internal controls. Significant weaknesses include errors, deficiencies, or conditions which result in one or more violations of internal controls, laws, A&M System policies, or member rules. These violations have a

high probability for legal consequences, financial consequences, or negative impacts to the organization’s reputation. These are situations in which a CEO, provost, vice president, dean, or director need to be involved in the problem resolution.

Audit areas highlighted in yellow in the Summary Table are considered to have notable weaknesses in internal controls. Notable weaknesses include errors, deficiencies or conditions which result in minor to moderate noncompliance with internal controls, laws, A&M System policies, or member rules. These are situations which can and should be corrected at the department or supervisor level.

Audit areas highlighted in green in the Summary Table are considered to have effective internal controls.

Items that were not significant or notable were communicated to management during the course of the audit.

## Criteria

Our audit was based upon standards as set forth in the following:

- Texas A&M University System Policies and Regulations
- State Comptroller’s Reporting Requirements for Annual Financial Reports of State Agencies and Universities
- General Appropriations Act (86<sup>th</sup> Legislature), Article III, section 6, Rider 5
- Government Accounting Standards Board pronouncements
- Other sound administrative practices

The audit was conducted in conformance with the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*. Additionally, we conducted the audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The Office of Internal Audit is independent per the GAGAS standards for internal auditors.



## **Audit Team**

Robin Woods, CPA, Director  
Michelle McMillin, CPA, Senior Manager  
Lisa Cauvel  
Darwin Rydl, CPA  
Lindsey Thomson, CPA

## **Distribution List**

Mr. John Sharp, Chancellor  
Mr. Billy Hamilton, Deputy Chancellor and Chief Financial Officer  
Mr. Phillip Ray, Vice Chancellor for Business Affairs  
Ms. Maria Robinson, Chief Investment Officer and Treasurer  
Mr. David Verghese, Executive Director of Investments  
Mr. Joseph Duron, Chief Administrative Officer  
Ms. Janet Gordon, System Ethics and Compliance Officer