

April 17, 2014

The UNT System, its Board of Regents, and our campus presidents have been working together to make a major upgrade of our basic financial management practices, particularly our computerization and automation services. We didn't, however, move quickly enough to discover and correct some underlying weaknesses in our financial controls that have come to light in recent months.

In response, we examined and disclosed some major problems in our financial operations that require immediate attention and cannot wait to be addressed by the long term-improvement projects already underway.

Today, at our April Board meeting, we are making a progress report to our Board of Regents, and we will continue to report the details of our improvements as we go forward. Some issues are expected to be resolved in the coming months while other system enhancements will continue into 2015.

These issues, which will require changes to our operating procedures, are related but very different. I describe them in three main groups:

1. **State Matching Benefit funding.** Some years ago, UNT began reporting payroll figures and managing its state accounts in ways that appear to have resulted in overfunded state contributions. We are working closely with the State Auditor to document the transactions and their net effects and look forward to reaching an appropriate and fair resolution of these issues. We expect this process will take several more months.

2. **UNT Budget Revenue Estimating.** Since 2011 but in some cases possibly before that date, UNT staff presented revenue estimates to the president and the System which we now find were not realistic. As a result, UNT leaders were not able to accurately address and balance spending and revenue. These deferred decisions are now being addressed by UNT administration, and appropriate FY14 budget decisions will be made in a timely way in the near future.
  
3. **Inadequate Financial Management Procedures.** The UNT System, with leadership from its Board, has over the past few years made a commitment to upgrade its financial and budget reporting and management through upgraded technology, consolidation of accounting staffs, and an external audit. Many of our procedures were manual, not fully automated, or had become outdated. We engaged an international financial consulting firm to conduct a pre-audit assessment and provide suggestions for improved controls, and we now have a number of policy and procedure improvement recommendations.

To improve our financial control environment, we have plans to fully implement a “best practice” environment for all general ledger recording and reporting functions. These steps will begin to be implemented this summer, while some will be a part of the installation of upgraded software in 2015.

Among the results of this work will be a better means of presenting key metrics of financial performance to the Board, and the consolidation of accounting staff offices into a new Unified Controller operation. This unified structure will better enable the System to update and set consistent procedures across all of our institutions, reduce reliance on manual spreadsheets, recruit and retain a highly skilled financial staff, and create more accurate reports. We have hired an experienced interim Controller and are recruiting leadership for this new office.

The Board also committed to conducting a full external audit of the UNT System FY14 financial reports, an added review by outside professionals in order to accelerate the improvement of procedures and reporting.

In the process of planning and implementation, the specific and serious deficiencies were identified relating to the issue of state benefit funding. Following discussions with our Board of Regents and senior management of our campuses, several key changes in financial leadership resulted. We advised state officials of our preliminary concerns and findings.

On February 28, 2014, the UNT System made a disclosure of these issues in accordance with Securities and Exchange Commission procedures. In further response to these disclosures, two rating agencies have published reports noting these issues at UNT and the challenges affecting our future financial outlook.

We were very pleased that, in their updated bond ratings, these agencies recognize that our issues can be addressed and that the financial resources of the UNT System remain healthy. This is a reflection that our challenges are not, we believe, long-lasting or permanently damaging. Our enrollment growth is steady, our revenue sources are stable, our debt levels are manageable, and our fiscal practices have been conservative in key budget areas.

As a result, both agencies reaffirmed our strong AA bond rating while raising appropriate questions pending additional final information. As a result, we are able to move forward with key capital improvements and construction to meet the needs of our faculty, students and administration.

We continue to work on full implementation of all necessary financial improvements in 2014 and 2015. We are recruiting strong, experienced new leadership at the campus and System levels to help us set and maintain a high standard of financial accuracy and integrity.

Pending these long-term improvements, we are taking interim steps that will, for example, establish more stringent limits on check-writing authority; a regular review of bank signatory authorities on each campus and in the

System; new standards in verifying accounting entries; and employee protections in reporting any concerns or misrepresentations of financial data.

While we do not yet know all the details of financial reporting irregularities, we are not aware at this time of any evidence of improper financial benefit among those involved in these practices.

I am confident that the entire UNT System is fully behind a transformation of our financial reporting procedures. The essential ingredients for our success will be a commitment to set and maintain high and exacting standards for professional integrity in everything we do.

Texas needs more, not fewer, great universities. The University of North Texas, with the full support of our System, will quickly make changes in these key administrative areas to continue its rise to greater leadership and academic quality. The State of Texas has sponsored and helped fund the growth and success of our campuses and also deserves to be able to trust and have confidence in our stewardship of all of our assets, accounts, facilities, and data.

Our System is committed to implementing a fully compliant financial record system with high integrity and accuracy. Our students, faculty, staff, alumni, donors, and community supporters deserve nothing less.

Lee F. Jackson  
Chancellor