



AGENDA
for
U. T. SYSTEM BOARD OF REGENTS
SPECIAL CALLED MEETING
and
ACADEMIC RETREAT

October 4-5, 2006
Bauer House
1909 Hill Oaks Court, Austin, Texas

OCTOBER 4, 2006

Special Called Meeting of the Board (Denius Pavilion)

Page

- | | | |
|---|--|-----------|
| A. CALL TO ORDER IN OPEN SESSION | 3:00 p.m.
<i>Chairman Huffines</i> | |
| B. CONSIDER AGENDA ITEMS | | |
| 1. U. T. System Board of Regents: Approval of the Annual Budget, including the capital expenditure budget, and Annual Fee and Allocation Schedule for The University of Texas Investment Management Company (UTIMCO) | 3:05 p.m.
Action
<i>Regent Caven</i>
<i>Dr. Kelley</i> | 1 |
| 2. U. T. System: Approval of the Shared Services Initiative | 3:15 p.m.
Action
<i>Dr. Kelley</i> | 29 |
| 3. U. T. System Board of Regents: Approval of the U. T. System-wide Internal Audit Plan for Fiscal Year 2007 | 3:30 p.m.
Action
<i>Regent Estrada</i> | 44 |
| C. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551 | | |
| 1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071 | | |
| a. U. T. System Board of Regents: Discussion regarding pending legal issues concerning legal relationship with Texas Student Publications, Inc. (Texas Student Media) at U. T. Austin | 3:50 p.m.
<i>Mr. Burgdorf</i> | |
| b. U. T. System Board of Regents: Discussion with Counsel on pending legal issues | | |
| 2. Deliberations Regarding the Purchase, Exchange, Lease, Sale, or Value of Real Property – Section 551.072 | | |
| 3. Negotiated Contracts for Prospective Gifts or Donations – Section 551.073 | | |
| U. T. M. D. Anderson Cancer Center: Discussion regarding potential negotiated gifts involving naming opportunities | 4:05 p.m.
<i>Dr. Safady</i> | |

4. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – Section 551.074

U. T. System: Consideration of individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents, U. T. System Administration officers (Executive Vice Chancellors and Vice Chancellors), other officers reporting directly to the Board (Chancellor, General Counsel to the Board of Regents, and Director of Audits), and U. T. System employees 4:35 p.m.

- D. RECONVENE IN OPEN SESSION TO CONSIDER ACTION ON EXECUTIVE SESSION ITEM(S), IF ANY 4:55 p.m.

- E. RECESS MEETING OF THE BOARD 5:00 p.m.

Reception 5:00 – 6:00 p.m.

Reconvene Board for Academic Retreat (In Bauer House Library with tables set)

- A. Introduction and welcome/ Lead-off remarks 6:00 p.m.
*Chairman Huffines
Chancellor Yudof*

- B. Remarks: Leveraging the distinctiveness of the U. T. System: leadership, governance, opportunities 6:15 p.m.
*Dr. Alceste Pappas,
President
Pappas Consulting Group*

- C. Dinner and discussion 7:00 p.m.
Dr. Geri Malandra, Facilitator

- D. Recess 8:30 p.m.

OCTOBER 5, 2006 (Denius Pavilion)

- Breakfast 8:00 – 8:30 a.m.
- E. RECONVENE ACADEMIC RETREAT 8:30 a.m.
Chairman Huffines
- F. Discussion 1 – Increasing institutional excellence: students; research 8:30 a.m.
Dr. Malandra, Moderator
President Mabry
President Romo
President García
- G. Discussion 2 – Relationships/collaboration with community colleges - 9:30 a.m.
transfer rates, delivery of remedial education, advanced placement,
and dual credit courses for high school students
Vice Chairman Krier, Moderator
President Daniel
President Spaniolo
President Watts
- Background materials are on Pages 90 – 100.
- H. Discussion 3 – Investing in and increasing enrollments of Science, 10:30 a.m.
Technology, Engineering, and Mathematics majors
Chancellor Yudof, Moderator
President Powers
President Natalicio
President Cárdenas
- I. Concluding observations by participants 11:30 a.m.
Vice Chairman Krier
- J. Lunch and remarks: Texas Emerging Technology Fund and keeping 11:45 a.m.
Texas competitive and discussion
Mr. David Spencer, Chair,
Texas Emerging Technology Fund
Dr. Geri Malandra,
Facilitator
- K. Adjourn 1:15 p.m.

1. **U. T. System Board of Regents: Approval of the Annual Budget, including the capital expenditure budget, and Annual Fee and Allocation Schedule for The University of Texas Investment Management Company (UTIMCO)**

RECOMMENDATION

The University of Texas Investment Management Company (UTIMCO) Board of Directors recommends that the U. T. System Board of Regents approve the proposed Annual Budget as set forth on Page 4, which includes the capital expenditures budget as set forth on Page 6, plus an additional one-time amount of \$668,570 and the Annual Fee and Allocation Schedule for the fiscal year ending August 31, 2007, as set forth on Page 8.

BACKGROUND INFORMATION

A proposed Annual Budget of \$56.7 million for Fiscal Year 2007 was approved by the UTIMCO Board on July 13, 2006, and July 25, 2006. An additional amount of \$668,570 was approved by the UTIMCO Board on September 22, 2006. The additional \$668,570 amount is related to the costs associated with the resignation of UTIMCO's President and CEO and subsequent search and hire of a new President and CEO. The additional request of \$668,570 increases the Annual Budget to \$57.4 million for Fiscal Year 2007.

The proposed Budget is an increase of \$8.9 million or 18.2% from the Fiscal Year 2006 Budget. The majority of the increase relates to a budgeted increase in external management performance fees and the above mentioned \$668,570 addition. The capital expenditure budget totaling \$167,000 is included in the total Annual Budget.

Background materials were prepared based on the \$56.7 million proposed budget.

The proposed Annual Fee and Allocation Schedule allocates proposed budgeted expenses among U. T. System funds, to be paid quarterly.

A material change to the Budget that the U. T. System Board of Regents previewed at the July 13, 2006, joint Board meeting was approved by the UTIMCO Board and shared with U. T. System Investment Oversight staff on July 25, 2006. The U. T. System Investment Oversight staff's Fiscal Year 2007 UTIMCO Budget Review on Pages 4 - 24 and Total Investment Management Cost Analysis on Pages 25 - 28 reflect this change that increased budgeted bonuses by \$561,000 (40% higher than presented at the July 13, 2006, meeting; 61% higher than projected actual bonuses in Fiscal Year 2006).

Budget materials prepared by
UTIMCO

UTIMCO Budget Analysis and Recommendation

The Investment Management Services Agreement between the U. T. Board of Regents and UTIMCO requires that UTIMCO submit its annual operating budget, capital budget and management fee schedule to the Board of Regents for approval. The Total Operating Budget consists of UTIMCO's management fee (the UTIMCO Services Budget) plus the budget for the direct expenses to the Funds, the Direct Funds Budget.

As indicated above, the UTIMCO related operating budget for management of the endowment and operating funds is comprised of two distinct elements. The "UTIMCO Services Budget" provides for all expenses directly associated with UTIMCO operations including staff compensation and benefits, general operating expenses such as travel and computer equipment, office expenses, and professional fees including general legal and accounting expenses. The "Direct Funds Budget" provides for all expenses directly related to the external management of assets of the endowment and operating funds. These expenses include external management fees, custodian fees, analytical resources expenses, general consulting expenses (including Cambridge Associates), and individual investment related legal and accounting expenses. The sum of the UTIMCO Services Budget and the Direct Funds Budget equals the Total Budget for the August 2007 fiscal year. Fiscal year 2007's budget reflects a full year of expenses related to the Intermediate Term Fund, the new investment pool created to manage U. T. System's operating funds.

UTIMCO management has direct control of the UTIMCO Services budget and expenses. The Services budget is developed through a decentralized process with each Managing Director having some level of budgetary responsibility. Actual expense performance relative to the budget is an element of the qualitative performance compensation review for each Managing Director and Manager at UTIMCO.

In contrast, because the Direct Funds expenses are affected significantly by price changes in the capital markets and by the level of activity in external manager accounts operating under full discretion, UTIMCO management has only limited control of the Direct Funds Budget and expenses. UTIMCO control is limited to selecting the types of external managers to be hired (active versus passive or partnership versus agency account, for example) and negotiating the best and most advantageous contract terms. Although the performance of actual Direct Fund expenses relative to budget is not a part of qualitative incentive compensation considerations for UTIMCO management, because all Services and Direct Funds expenses reduce the net returns earned by the endowment and operating funds, UTIMCO management has clear incentive to manage Direct costs so as to maximize net investment returns. Note that this does not necessarily mean that attempting to minimize Direct (or Services) costs is the best approach. What is important both to UTIMCO management and the funds is maximizing net returns.

In addition, UTIMCO is required to submit annually its capital expenditures budget. This is a new requirement added to the Master Investment Management Services Agreement between the U. T. System Board of Regents and the UTIMCO Board of Directors. The amount of the capital expenditures budget is included in the annual budget amount but is provided separately.

On July 13, 2006, the UTIMCO Board of Directors unanimously approved the proposed UTIMCO's 2006-2007 Operating Budget, Capital Budget, and Management Fee Schedule, with the acknowledgment that the bonus compensation of the UTIMCO Services Budget would be further reviewed by the UTIMCO Board at a special called meeting. This special called meeting was held July 25, 2006, and the proposed budget includes the effect of the UTIMCO Board's approval of the bonus compensation at its July 25, 2006 meeting. These recommended Fiscal Year 2006-2007 UTIMCO Services and Direct Funds Budget totals are presented below:

Budget Comparisons	Fiscal Year 2006-2007 Budget	Fiscal Year 2005-2006 Budget	Increase (Decrease)	% Change
UTIMCO Services	\$ 13,272,068	\$ 11,434,302	\$ 1,837,766	16.1%
Direct Costs to Funds	43,419,269	37,111,691	6,307,578	17.0%
Total Proposed Budget	\$ 56,691,337	\$ 48,545,993	\$ 8,145,344	16.8%
As a Percent of Assets Managed	0.293%	0.277%	0.016%	

With this overview of the recommended budgets, the following sections focus on the UTIMCO Services and Direct Funds Budgets separately. In addition, a new section related to the capital budget request is included.

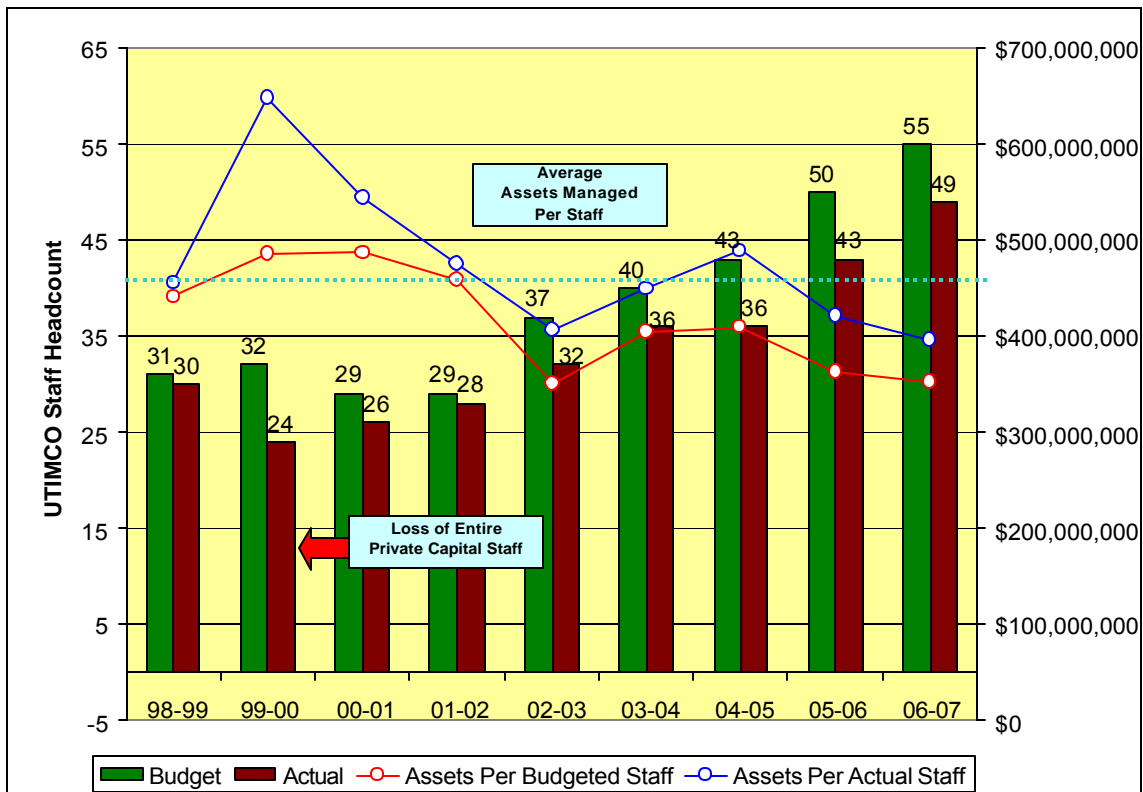
UTIMCO Services Budget

The primary items affecting the increase in the UTIMCO Services budget are salary increases for existing staff and new additions to the staff and lease costs.

Salary Increases for Existing Staff: UTIMCO's compensation policy is to pay competitive base salaries. Competitive base salaries are defined to be salaries within a plus or minus 20% band centered on the market median salary for a similar position in an endowment fund or investment management organization. UTIMCO's Compensation Committee selected Mercer Human Resource Consulting (Mercer) as UTIMCO's compensation consultant. The Compensation Committee hired Mercer to provide competitive compensation information for key management, investment, and operations positions based on a benchmarking study. Salary levels for other staff positions are based on local competition in similar organizations. Overall staff salaries increased by 4.6%. However, the Mercer survey indicated that potential incentive compensation at UTIMCO lagged those of its competition, and adjustments were warranted. As a result of these adjustments, budgeted incentive compensation increased 39.9% versus the calculations under the prior plan. The Compensation Committee of the UTIMCO Board reviewed and approved the staff salaries of the eligible compensation plan participants and potential incentive awards included in the budget request. The UTIMCO Board considered and approved the recommended salary for the President and Chief Executive Officer of UTIMCO.

New Additions to Staff: Four new positions were added to the staff. Two staff positions are being added to the Public Markets area. One is an analyst for assisting with the research, analysis, and recommendation of active managers and investment ideas that will facilitate the growth and success of the Intermediate Term Fund. The second position is a senior quantitative analyst dedicated to specifically research, synthesize, and structure potential internally managed investments on behalf of the U. T. endowments. Two additional staff positions are being added to the Accounting, Finance and Administration area. One position is devoted to compliance. This position was recommended by the U. T. System Audit Office and the duties and responsibilities include updating of the investment risk assessment and testing, development and updating of compliance policies, monitoring compliance of investment policies and investment guidelines, and compliance with external manager contracts. These functions are currently performed by accounting staff in addition to their full time accounting responsibilities. The second position is an administrative assistant position to provide advance word processing and computer skills necessary to prepare and maintain the various accounting and performance reports, including the financial statements for the funds.

Although the budgeted headcount has increased substantially since the ebb in Fiscal Year 2000, current and projected assets managed per staff are near the long term average indicated by the dashed line in the figure below:



The increase in staff count from 2000 is due to two factors: first, 2000 was an artificially low starting point, the staff was dangerously thin after the loss of the Private Capital team, necessitating a multimillion dollar payment to Cambridge Associates to monitor existing investments; and second,

our current high return potential, specialist structure requires both a more experienced and larger team to monitor the more sophisticated investments we need to make to earn high value added returns.

Lease Fees: Lease fees increased due to the lease costs in the new facility, where we had limited lease costs in the current fiscal year because we negotiated free occupancy in the new lease agreement.

Direct Funds Budget

The details of the Direct Funds Budget are shown below:

Direct Funds Budget	Fiscal Year 2006-2007 Budget	Fiscal Year 2005-2006 Budget	Increase (Decrease)	% Change
External Base Management Fees	\$ 16,847,098	\$ 20,421,000	\$ (3,573,902)	-17.5%
External Performance Management Fees	20,585,849	10,391,371	10,194,478	98.1%
Total External Management Fees	37,432,947	30,812,371	6,620,576	21.5%
Custodian Fees	1,260,072	2,356,175	(1,096,103)	-46.5%
Performance Measurement	530,599	621,169	(90,570)	-14.6%
Analytical Tools	386,700	289,570	97,130	33.5%
Risk Measurement	850,000	803,121	46,879	5.8%
Total Custodian and Analytical Costs	3,027,371	4,070,035	(1,042,664)	-25.6%
Consultant Fees	1,356,000	1,100,000	256,000	23.3%
Auditing	205,000	213,920	(8,920)	-4.2%
Controls Assessment (Sarbanes Oxley)	124,000	136,500	(12,500)	-9.2%
Printing	182,250	150,665	31,585	21.0%
Bank fees	-	6,000	(6,000)	-100.0%
Legal Fees	985,000	555,000	430,000	77.5%
Background Searches & Other	106,700	67,200	39,500	58.8%
Total Other Expenses	2,958,950	2,229,285	729,665	32.7%
Total Direct Costs to Funds	\$ 43,419,267	\$ 37,111,690	\$ 6,307,576	17.0%
As a Percent of Average Assets	0.224%	0.211%	0.013%	

As indicated earlier in the overview of the entire budget, the total Direct Funds Budget is expected to expand 17.0% on a dollar basis and increase slightly as a percentage of Assets Managed. Other key points to note:

- The increase in the External Management fees of \$6,620,576 is more than the total increase of the direct costs. The increase is related to three factors: 1) The budgeted amount has increase because of the ITF's existence for the full budget year. The prior budget only had a partial year estimate for these expenses; 2) With the departure of the REITS Internal Manager, an external manager was hired, resulting in a management fee

increase of approximately \$2.4 million; and 3) The methodology of estimating the performance-based external manager fees has been enhanced that results in a higher, though more accurate, estimate of these performance fees.

- A cost reduction of \$1,042,664 has occurred in the Custodian and Analytical Costs. Custodian fees and performance measurement fees decreased as a result of the custodian service review and the pooling of the marketable alternative investments.
- \$729,665 or 12% of the increase in Total Other Expenses is mainly the result of two factors: 1) Consultant fees increased due to the addition of a proposed Risk Consultant and an advisor to the Marketable Alternatives Staff, and 2) Legal fees have increased as a result of more complex transactions, increasing the cost per investment and the number of investment opportunities has increased significantly.

Capital Expenditures Budget

The detail of the Capital Expenditures Budget is as follows:

Capital Expenditures for 2006-2007	
Computer Server Replacements and Related Software Licenses	\$ 75,000
Staff Computer and Monitor Replacements	15,000
Phones and Related Equipment	6,000
Software License Upgrades (Primary SQL and Exchange)	10,000
Allowance for Office Artwork and Framing	15,000
Allowance for Computers - 4 new staff	16,000
Additional Furniture Purchases	30,000
Total Capital Expenditures	<u>\$ 167,000</u>

Allocation of Expenses Across Funds

The final step in the budgeting process is to equitably allocate the budgeted expenses across the Funds. The UTIMCO Services Budget has traditionally been allocated on the basis of a combination of relative asset value of the Funds and total staff time dedicated to the management of each Fund. Budgeted expenses for 2006-2007 were allocated as follows: Permanent University Fund 46%, Long Term Fund 28%, Permanent Health Fund 6%, and Intermediate Term Fund 20%. These allocations are very similar to prior fiscal year allocations.

Direct Funds expenses are charged to each fund on the basis of costs actually incurred. Only those Direct costs associated solely with the PUF, PHF, LTF, and ITF are charged against those Funds.

UTIMCO Budget
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2007

	The Permanent University Fund (PUF)	The Permanent Health Fund (PHF)	The University of Texas System Long Term Fund (LTF)	General Endowment Fund (GEF)	The University of Texas System Intermediate Term Fund (ITF)	Short Term Fund (STF)	Separately Invested Endowments and Charitable Trust Accounts	Total
UTIMCO Management Fee (1) (includes all operating expenses associated with the general management of the Funds)	6,481,749	839,949	3,860,575		2,756,365			13,940,638
Direct Expenses of the Fund								
External Management Fees	9,293,270	0	0	4,873,976	2,679,852	N/A (2)		16,847,098
External Management Fees - Performance Based	11,371,179	0	0	5,938,141	3,276,529			20,585,849
Other Direct Costs	2,953,528	18,863	160,249	1,845,533	1,008,149			5,986,322
Total Direct Expenses of the Fund	23,617,977	18,863	160,249	12,657,650	6,964,530		0	43,419,269
TOTAL	30,099,726	858,812	4,020,824	12,657,650	9,722,895	N/A (2)	0	57,359,907

Market Value 2/28/06 (\$ millions)	9,798.6	966.0	4,262.4	5,228.4 (3)	2,920.0	1084.8	326.9	19,358.7
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Percentage of Market Value								
UTIMCO Services	0.066%	0.087%	0.091%	0.000%	0.094%	0.000%	0.000%	0.072%
Direct Expenses of the Fund	0.241%	0.002%	0.004%	0.242%	0.239%	0.000%	0.000%	0.224%
TOTAL	0.307%	0.089%	0.094%	0.242%	0.333%	0.000%	0.000%	0.296%

(1) Allocation Ratio: PUF-46%, Health Fund-6%, LTF-25%, ITF-19%
(2) Income is net of fees
(3) Pooled Fund for the collective investment of the PHF and LTF (amounts may not foot due to rounding adjustments)

Budget Review prepared by
the Office of Finance

FY 2007

UTIMCO BUDGET REVIEW

**The University of Texas System
Office of Finance**

Prepared by:

**Cathy Swain – Director of Investment Oversight
William Huang – Senior Financial Analyst**

July 26, 2006

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FY 2007 UTIMCO BUDGET REVIEW

I. EXECUTIVE SUMMARY

NOTE: A material change to the budget that the BOR previewed at the July 13, 2006, joint board meeting was approved by the UTIMCO Board and shared with Investment Oversight staff on July 25, 2006. This review reflects the change that increased budgeted bonuses by \$561,000 (40% higher than presented on July 13, 2006; 61% higher than projected actual bonuses in FY06).

The UTIMCO budget consists of UTIMCO Services and Direct Costs to Funds. ("Funds" refer to the PUF, GEF and ITF). Table 1 below summarizes FY06 budget and projected actual expenses, and the proposed FY07 budget. Refer to Exhibit A for detailed FY06 and FY07 data and Exhibit C for five-year trends for FY03-FY07.

Table 1
UTIMCO FY06 Projected Actual and FY07 Budget Overview

	FY06			FY07			
	\$ Budget	Projected \$ Actual *	% Change vs FY06 Budget	\$ Budget	\$ Change vs FY06 Projected	% Change vs FY06 Projected	% Change vs FY06 Budget
UTIMCO Services	11,434,302	10,510,004	-8.1%	13,272,069	2,762,065	26.3%	16.1%
Direct Costs to Funds	37,111,691	43,356,325	16.8%	43,419,269	62,943	0.1%	17.0%
Total Budget	48,545,993	53,866,329	11.0%	56,691,338	2,825,009	5.2%	16.8%

* Projections based on actual UTIMCO Services and Direct Costs to Funds expenses through May 31, 2006.

FY06 Projected Actual versus Budget: UTIMCO estimates that actual FY06 expenses will be approximately \$53.9 million or \$5.3 million (11%) over the total budget of \$48.5 million.

- **UTIMCO Services** corporate expenses are projected to be under budget by \$924k (8%), mainly due to unfilled positions and reduced bonus expectations, offset by legal and professional fees that exceed budget by about \$160k.
- **Direct Costs to Funds** overall are projected to be over budget by \$6.2 million (17%).
 - External management and performance fees are projected to exceed the budget by more than \$7.4 million (24%).
 - Direct legal costs are projected to be 38% over budget (170% over budget in FY05).
 - Custodial, risk measurement, analytical and performance measurement costs, on the other hand, are projected at almost \$1.1 million under budget (27%).

FY07 Proposed Budget: The proposed total UTIMCO budget for FY07 is \$56.7 million, a 5% increase from FY06 projected actual expenses overall and a 17% increase from FY06 budget.

- **UTIMCO Services FY07** budget is an increase of 26% over FY06 projected actual expenses, primarily due to increases in compensation, staffing costs, and lease expenses.
- **Direct Costs to Funds** in total are budgeted consistent with actual costs forecast for FY06.
- **Total Compensation** is budgeted to increase more than 31% from FY06 projected actual, with Bonus Compensation budgeted to increase almost 61%.
- **Direct legal costs** continue to escalate, budgeted to increase 29% over FY06 projected actual.

Centralized Management of Operating Funds: The new ITF launched centralized management of operating funds on February 1, 2006, two months later than the budgeted December 1 start date, and was fully invested within policy asset allocation ranges within one month. Economies of scale

should be possible with approved asset allocation targets achieved. Refer to Exhibit B for a detailed analysis of actual incremental costs (external base and performance fees).

- For the seven months of FY06, incremental costs are projected at \$4.2 million, 43% lower than the budgeted amount of \$7.4 million. On an annualized basis, incremental costs would have been approximately \$7.3 million.
- FY07 budgeted incremental costs of \$7.4 million are estimated to be approximately 0.17% of centralized operating funds (ITF and STF), not including incremental employee benefits or bonus compensation related to additional staffing.

Lease expenses are lower in FY06 on a cash basis compared to prior fiscal years as a result of the 10 months of deferred rent credit provided by the landlord for the Frost lease during FY06. From FY07 forward, however, lease expenses will be significantly higher than in previous years.

Shift to Private Investments: The ongoing shift to complex private investments throughout the portfolios is evidenced by escalating legal costs and third party management and performance fees. Private investments throughout the portfolios require more due diligence, documentation, and monitoring. (Refer to discussion of “Base and Performance Management Fees” on page 8.) External management and performance fees will be further analyzed in a separate update of total costs.

Risk Management: Data from private investments for analysis in the risk model, particularly hedge funds, is slower to materialize than anticipated. The FY07 budget contemplates increased expenses for expanded contractual resources which should result in more complete risk measurement data.

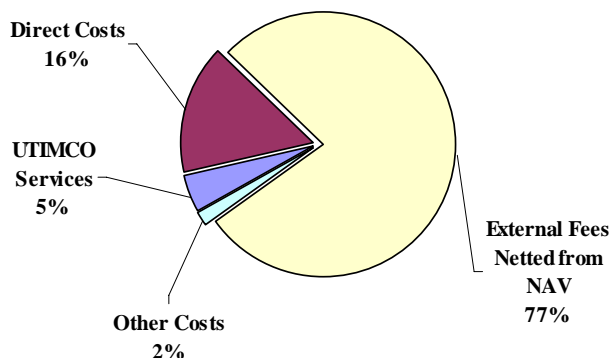
UTIMCO Proposed Fee Schedule: UTIMCO Services expenses are allocated to U. T. System Funds based on detailed “bottom up” analysis of staff time and specific costs; direct costs to funds are paid directly by each fund as much as possible. The proposed formula for FY07 allocates 20% of budgeted UTIMCO Services expenses to the ITF; the compensation plan, on the other hand, weights the ITF 15% for entity performance targets. At 0.09% of total assets as of February 28, 2006, UTIMCO Services expenses allocated to the ITF are the highest of the funds. For the full year FY06, 15% of UTIMCO Services expenses were allocated to the ITF.

Distribution: Last fall \$4 million in surplus UTIMCO corporate reserves were distributed back to the U. T. System Funds. A review of the most recent UTIMCO balance sheet available as of this writing (February 28, 2006) indicates that an additional distribution this year is not necessary.

II. Investment Management Total Costs

UTIMCO budgeted costs that are examined in this report include UTIMCO Services costs for oversight and corporate operations and Direct Costs of Funds, or fees and expenses paid directly by the funds for third party services. The chart illustrates that the \$44 million in UTIMCO budgeted costs in FY05 represented only 21% of the \$215 million in actual total costs (1.25% of average total assets under management).

**Investment Management Total Costs
FY05 – \$215 Million**

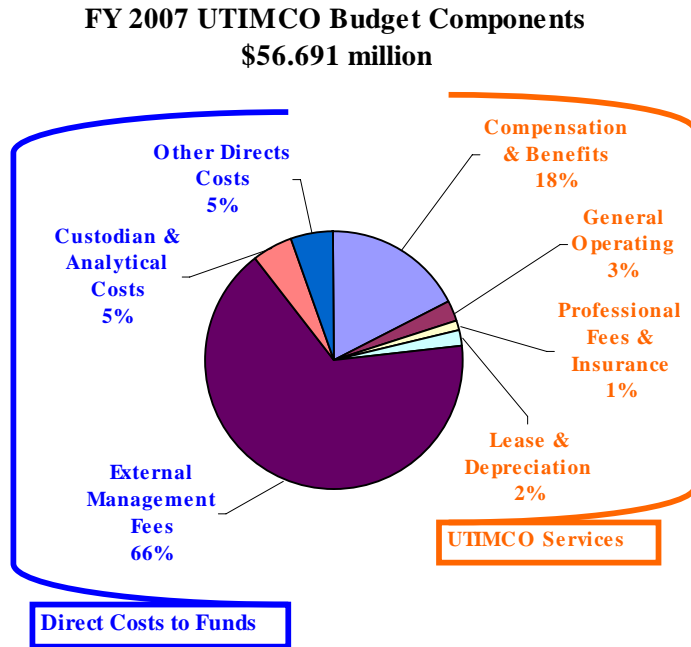


Investment management total costs will be updated separately in an addendum to this report. Partnership, hedge fund, mutual fund, and other private investment fund fees and expenses are netted from reported investment

results (net asset values). Since these expenses are not paid directly by U. T. System Funds, they are not budgeted. These expenses in FY05 were 77% of the investment management total costs. Other expenses budgeted by the U. T. System (2% of total costs) are fees for education and endowment compliance (LTF only), investment oversight, and internal audit.

III. FY 2007 Budget Trends Overview

UTIMCO proposes a total budget for FY07 of \$56.7 million. The chart titled “FY 2007 UTIMCO Budget Components” shows the breakdown of the total budget. The UTIMCO Services operating budget accounts for 23% of the total, with personnel costs the largest component.



Direct Costs to Funds include external management fees paid directly, custodial, consulting, legal, analytical, and other direct costs. External management fees paid directly, including related performance fees, dominate the total budget (66%). UTIMCO retains external managers for 82% of the \$20 billion in assets managed including operating funds, up from approximately 75% at this time last year, partly due to the shift to external management of the REIT portfolio.

costs as a percent of total funds under management, including operating funds, since FY02. Active management of the centralized operating funds is resulting in slightly higher relative costs as a percent of total assets beginning in FY06.

Table 2 shows the trend of Direct Costs to Funds and UTIMCO Services

Table 2
UTIMCO Budgeted Investment Management Cost Trends (\$ Millions)

	Actual				Projected	Budget
	FY02	FY03	FY04	FY05	FY06	FY07
Average Total Assets Under Management (AUM) *	13,716	14,034	15,470	17,245	20,185	21,187
% Change in AUM	-8%	2%	10%	11%	17%	5%
UTIMCO Services	5.0	7.6	8.8	10.2	10.5	13.3
UTIMCO Services % of AUM	0.04%	0.05%	0.06%	0.06%	0.05%	0.06%
Direct Costs to Funds	20.1	16.0	25.5	33.8	43.4	43.4
Direct Costs to Funds % of AUM	0.15%	0.11%	0.16%	0.20%	0.21%	0.20%
Total Budgeted Costs	25.1	23.7	34.3	44.0	53.9	56.7
Total Budgeted Costs % of AUM	0.18%	0.17%	0.22%	0.26%	0.27%	0.27%

* Total average funds managed were calculated for FY 2003-2005 using beginning and ending FY totals as of August 31 and dividing by two. The averages for FY06 and FY07 are based on UTIMCO estimates.

IV. UTIMCO Services

FY06 UTIMCO Services are projected to be under budget by \$760k excluding depreciation, and \$924k (8%) overall. Highlights are:

- Three unfilled budgeted positions saved approximately \$656k, and some positions (including the Manager for Centralized Operating Funds) were filled at below budgeted salaries.
- Projected performance bonuses expect to save an additional \$118k because one eligible position remains unfilled and performance FY06 year-to-date (YTD) has not achieved budget expectations. (50% of eligible salaries, plus funding for the discretionary 15% bonus pool were budgeted.)
- General operating, lease expense and insurance costs are consistent with budgeted amounts.
- Lease expenses are lower on a cash basis compared to prior fiscal years as a result of the 10 months of deferred rent credit provided by the landlord for the Frost lease during FY06.
- Professional fees (mainly legal) should exceed the budgeted amount by \$160k.
- Depreciation is below budget by about \$165k due to a change in prior year treatment of anticipated deferred rent in budgeting for depreciation. Projected actual depreciation for FY06 is in line with budgeted capital expenditures.
- FY07 UTIMCO Services budget is more than 26% higher than projected FY06 actual expenses.

Staffing and Personnel Costs: Nearly 75% of the FY07 UTIMCO Services budget (18% of the total budget) is directly related to personnel including employee benefits. Trends in staffing, total compensation, and maximum compensation at 100% potential bonus are shown in Table 3. Total compensation since FY03 has significantly outpaced both growth in managed assets and the increase in number of employees:

- UTIMCO staff has grown 51% from 37 in FY03 to a budgeted 56 in FY07, while funds managed also increased 51%;
- Total compensation has more than doubled (grew 34% per employee);
- Maximum potential total compensation has increased 156%;
- The maximum potential bonus has increased 352% (53% in FY07 from FY06); and
- Funds managed per employee is projected to decline to the lowest level since FY03.

Table 3
UTIMCO Compensation and Headcount – FY03-FY07

	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Projected	FY07 Budget *	Growth Rate Since FY03
Total Compensation	4,192,216	5,632,614	6,297,547	6,468,730	8,486,376	102%
Maximum Compensation	4,192,216	6,630,876	8,001,800	8,028,709	10,743,671	156%
Headcount	37	38	42	49	56	51%
Total Compensation per Employee	113,303	148,227	149,942	132,015	151,542	34%
Bonus	1,089,333	1,858,653	2,094,447	1,661,284	2,670,927	145%
Maximum Bonus	1,089,333	2,856,915	3,798,700	3,221,263	4,928,222	352%
Bonus as % of Maximum Bonus	100%	65%	55%	52%	54%	
Bonus as % of Total Salaries	35%	49%	50%	35%	46%	
Bonus as % of Total Compensation	26%	33%	33%	26%	31%	
Average Total AUM (millions)	14,034	15,470	17,245	20,185	21,187	51%
Average Total AUM per Employee	379,299	407,113	410,590	411,934	378,348	0%

* The FY07 budget for Bonus Compensation represents 70% of the maximum performance bonus that can be earned under the Compensation Plan (budgeted at 50% of the maximum bonus), plus \$592k of deferred bonuses earned in prior years and related investment interest. The remaining 30% of the bonuses earned in FY07 will be paid out in equal amounts over the next three fiscal years.

Salaries and Wages are projected to be approximately \$656k (12%) under budget in FY06 because of delays in hiring and filling some positions at below budgeted salaries. Last year the budget was based on staffing of 52 employees; actual staffing is projected to be 49 employees by fiscal year end 2006. Refer to Exhibit D for a list of the unfilled budgeted and proposed new positions for FY06 and FY07. Three budgeted, unfilled positions have been open since FY05; one position (the portfolio manager for REITS) is deleted from the FY07 budget.

The FY07 budget for total compensation represents 64% of the total UTIMCO Services budget and proposes to increase \$2.0 million (31%) to \$8.5 million from a projected \$6.5 million in FY06. Salaries proposed in the FY07 budget include increased salaries for three unfilled positions, four proposed new positions (approximately 20% of the increase), and an average 4.6% base salary increase for existing employees.

Actual bonuses paid for FY05 were 55% of the maximum potential bonus for all eligible employees, including positions not filled (on average 50% of total actual salaries and wages). In FY06 UTIMCO budgeted for 50% of maximum bonus for all eligible budgeted positions and 50% of discretionary bonus for employees outside of the Program. Based on performance YTD, bonus compensation for FY06 is forecast to be \$118k under budget, with a projected 52% of the maximum potential bonus for existing employees being earned (on average 35% of total actual salaries and wages).

The FY07 budget assumes bonuses of 50% of the maximum potential bonus will be earned by eligible key employees (on average 46% of total budgeted salaries and wages) and paid at 70% with the remaining 30% in earned bonus compensation deferred over the next three fiscal years. The FY07 budget for Bonus Compensation also includes \$592k of deferred bonuses earned by key employees in prior years, related investment income, and nearly \$112k budgeted for a discretionary bonus pool up to 15% of salaries for employees not eligible to participate in the formal incentive plan.

Employee Benefits budgeted for FY07 cost roughly 18% of proposed base compensation, which is slightly lower than U. T. System Administration averages because of UTIMCO's higher average salary levels. Employee Benefit costs are expected to be under budget in FY06 by \$107k (11%) due to unfilled existing positions. UTIMCO pays a portion of the cost of employee group health, dental, life, short term disability, and long term disability insurance, and contributes on behalf of participating employees to a 403(b) retirement savings plan. UTIMCO's portion of Employee Benefits costs is budgeted to increase 23% to \$1.0 million in FY07, reflecting higher costs for existing staff and new employees. We have recommended that UTIMCO should evaluate whether cost savings may be gained by participating in the U. T. System's self-insured benefit plans.

General Operating Expenses are on target with the budgeted amount for FY06 of \$1.6 million. The FY07 budget proposes a slight increase, primarily due to increased on-line data and contract services and travel, offset by reduced recruiting and relocation expenses.

Lease Expense: UTIMCO's move to 70% larger space in the Frost Bank Tower, with 14 months of deferred rent starting in October 2005, reduced total lease expenses on a cash basis in FY06 to 49% below FY05. The majority of the \$308k projected actual lease expense in FY06 was for final months of occupancy in the Chase building. At budgeted staffing of 56 employees in FY07, the space allows an average of approximately 500 square feet per employee; however, the increase in leased space is intended to accommodate staffing growth over the 11-year term of the lease.

The Frost lease is less expensive on a per square foot basis but more expensive on a dollar basis than the previous Chase building lease due to the increase in leased space, higher parking expense, and higher operating expenses passed through. Table 4 below illustrates that cost savings in FY06 will be offset by increased lease costs in FY07 and beyond. Lease expenses of \$810k budgeted for FY07 (allowing for the final two months of deferred rent) are 163% higher than actual FY06 expenses and 35% higher than FY05 (54% higher on a full year basis).

Lease expense presented here on a cash basis excludes the accrual of amortization of \$1.8 million in deferred rent expense which will be amortized ratably over the life of the 132 month lease. Deferred rent expense includes allowances for leasehold improvements and free rent that are expensed over the life of the lease so that lease expense on an accrual basis will be the same each month.

Table 4
Lease Expense Analysis

Actual / Projected	Chase		Frost Bank Tower				
	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Parking Expense	62,362	71,500	90,600	93,318	96,118	99,001	101,971
Misc. Lease Expense*	4,432	3,775	4,500	4,500	4,500	4,500	4,500
Property Lease	362,010	150,838	425,409	493,274	493,274	493,274	493,274
Lease Operating Expense	171,789	81,874	289,230	345,431	355,794	366,468	377,462
Total	600,593	307,987	809,739	936,523	949,686	963,243	977,207

* Storage. Note also that parking and lease operating expenses are assumed to increase 3% annually, starting in FY08.

Capital Expenditures associated with the office move to the Frost Tower were approximately \$2.7 million through FY06, of which \$1.6 million was refunded by the landlord as an allowance for leasehold improvements. Total capital expenditures budgeted for office relocation, including information technology (IT) upgrades and a portion of leasehold improvements expenditures that were incurred during the end of FY05, are projected to be approximately 14% under budget. Capital expenditures of \$1.4 million associated with the office move (excluding moving costs) and IT planned upgrades, and related increases in depreciation of approximately \$236k are explained in Table 5.

Table 5
Capital Expenditures and Depreciation

	Budget FY06	Projected FY06	Variance	Budget FY07
Leasehold Improvements (net)	786,452	637,811	-19%	0
Furniture	485,000	499,461	3%	30,000
IT Upgrades	366,000	267,506	-27%	137,000
Total Capital	1,637,452	1,404,778	-14%	167,000
Change in Depreciation/amortization	264,900	235,771	-11%	39,333
Total Depreciation/amortization	535,900	371,387	-31%	410,720

Projected depreciation expense for leasehold improvements and the purchase of new furniture and equipment associated with the office move in FY06 is anticipated to be about 31% below budget because of a change in prior year treatment of anticipated deferred rent in budgeting for depreciation. The FY07 budget adjusts for this change with \$411k budgeted for depreciation, reflecting an increase of \$39k above projected FY06 to account for \$167k in proposed capital expenditures, summarized in Table 6. Total new furniture costs of nearly \$530k average of nearly \$9,500 per employee, and new staff computers are budgeted at \$4k each.

Table 6
Capital Budget FY07

Computer server replacements and related software licenses	75,000
Software license upgrades (primary SQL and exchange)	10,000
Staff computer and monitor replacements	15,000
Computers for four new staff	16,000
Phones and related equipment	6,000
Allowance for office artwork and framing	15,000
Furniture	30,000
Total Capital Budget	\$ 167,000

Professional Fees are expected to be \$385k in FY06, 71% higher than the budgeted amount of \$225k. Compensation Consultant fees are projected at \$65k from a budgeted \$25k; and Accounting Fees increased from a budgeted \$25k to nearly \$48k. Legal expenses are projected to be over budget by \$80k in FY06, and budgeted to decrease 24% in FY07 to \$195k. (See discussion of “Legal Expenses” below.) Total Professional Fees are budgeted to decrease 30% to a \$270k in FY07.

V. Direct Costs to Funds

Direct Costs to Funds for FY06, including centralized management of operating funds, are projected to be \$43.4 million or 17% over a budgeted \$37.1 million. The FY07 budget will increase only slightly (0.1%) from projected FY06 actual expenses.

Base and Performance Management Fees paid to external managers under agency agreements represent approximately 86% of Direct Costs to Funds and continue to increase in both dollar terms and as a percentage of assets. In FY06, these fees are expected to be approximately \$38.2 million or 24% over a budgeted total of \$30.8 million. Incremental external management fees for centralized operating funds were budgeted at an estimated \$5.7 million and are currently projected to be only \$3.4 million, which means fees for the PUF and GEF are over budget by nearly 40%. During the budget review last summer, UTIMCO projected that FY05 direct external management costs would be \$3.1 million (13%) over budget; actual costs turned out to be \$5.6 million (24%) over budget.

The 2% budgeted decrease in FY07 from the FY06 projected actual external management fees may not be realistic, given the increase in actively managed assets with the ITF fully invested for a full year in FY07 vs. seven months in FY06. Direct external management costs overall could level off, however, if assets continue to shift to private investments whose fees and expenses are netted from asset values, not budgeted or paid directly.

REIT assets were shifted to third party management upon the departure last year of UTIMCO’s REIT portfolio manager. As a result, an estimated \$2.4 million in unanticipated base management fees

were incurred for PUF and GEF REIT holdings. The FY07 budget includes approximately \$4.6 million (not including performance fees) for external management of REIT assets for all three funds.

Custodial and performance measurement costs have increased dramatically since FY05 because of daily valuations by the custodian and increasing assets. Due in part to more competitive fees as a consequence of the RFP process, Mellon custodial fees in FY06 are projected to be \$1.8 million, well under a budgeted \$2.4 million. The FY07 budget anticipates a further decrease of nearly 29% to \$1.3 million. Performance measurement expenses in FY06, projected to be 15% below budget at \$526k, are budgeted in FY07 to increase slightly to a proposed \$531k.

Timely independent verification of performance and asset allocation information, and close monitoring of internal derivative positions are critical to support UTIMCO's active management style. Internal derivatives positions of approximately \$5.575 billion gross-weighted (28% of all U. T. System total assets as of April 30, 2006) require detailed reporting of underlying collateral and net asset values to mark-to-market positions for accurate performance reporting and risk measurement. To maintain minimal cash portfolio targets, accurate and timely trade (vs. settlement date) accounting is also necessary to accurately clear and match all current trading activities.

Risk Management System expenses charged to the funds in FY06 are expected to be more than 55% (\$444k) under budget. U. T. System oversight staff are concerned that FY06 projected expenditures are significantly lower than budgeted amounts because availability of data on holdings of external hedge funds and other private investments has been delayed and still is not complete.

This area of analysis is critically important, especially given internal derivatives exposure and the lack of transparency with hedge fund positions. In the absence of actual position data, UTIMCO's risk model uses "proxies" to simulate the hedge fund and private capital components of the portfolio risk profile. The recent demise of the S&P Hedge Fund Index highlights concerns about relying on these benchmarks for risk assessment.

UTIMCO signed a 12-month contract for \$250k with IFS (International Fund Systems) effective October 1, 2005, and reported recently in Board materials that the contract is being renewed for an annual fee of \$400k for the risk management system. Additionally, IFS receives and analyzes individual investment positions from some hedge fund managers and reports the risk factor exposures to UTIMCO. IFS charges a fee of \$15k per hedge fund annually for managers who agree to disclose holdings to IFS (\$7,500 for hedge funds already reporting to IFS). Some managers do report holdings to IFS, but fees for analysis of individual hedge fund holdings have been delayed while IFS completes the system configuration.

For FY07, risk system costs are budgeted to be \$400k for the traditional portfolio and an additional \$450k for 31 hedge funds (14 existing, 17 new) for a total of \$850k. The total FY07 budget for direct costs of the risk management system is nearly 6% higher than the FY06 budgeted level, and 137% above projected actual FY06 expenses.

Controls Assessment expenses in FY06 were budgeted for full Sarbanes-Oxley controls assessment certifications for the UTIMCO and Funds, but full implementation occurred only for UTIMCO and PUF. As a result, related expenses are currently estimated at \$122k this fiscal year, about 11% under budget. The FY07 budget expects these costs to increase slightly to \$124k to fund U. T. System Audit Office and Ernst & Young fees for scheduled controls assessment certifications for UTIMCO, PUF, GEF, LTF, and PHF. Certification for the ITF is expected to occur in FY08.

Legal fees: The trend to higher legal fees is expected to continue with the shift to complex private investment funds throughout the portfolios. The spike in 2005 was attributed to disclosure issues related to private capital investments and analysis of centralization options. Legal fees paid directly by U. T. System Funds in FY06 are projected to be approximately 38% over budget at \$764k. This increase is related to new private capital investments, other private investment funds, and hedge funds, many of which are domiciled outside the U.S. and require more due diligence and documentation. The FY07 budget proposes a further increase of almost 29% to \$985k.

Total legal fees for management of U. T. System Funds, including UTIMCO corporate services and direct legal expenses charged to the funds, have escalated since FY2004 as shown in the chart below.

Legal Expenses

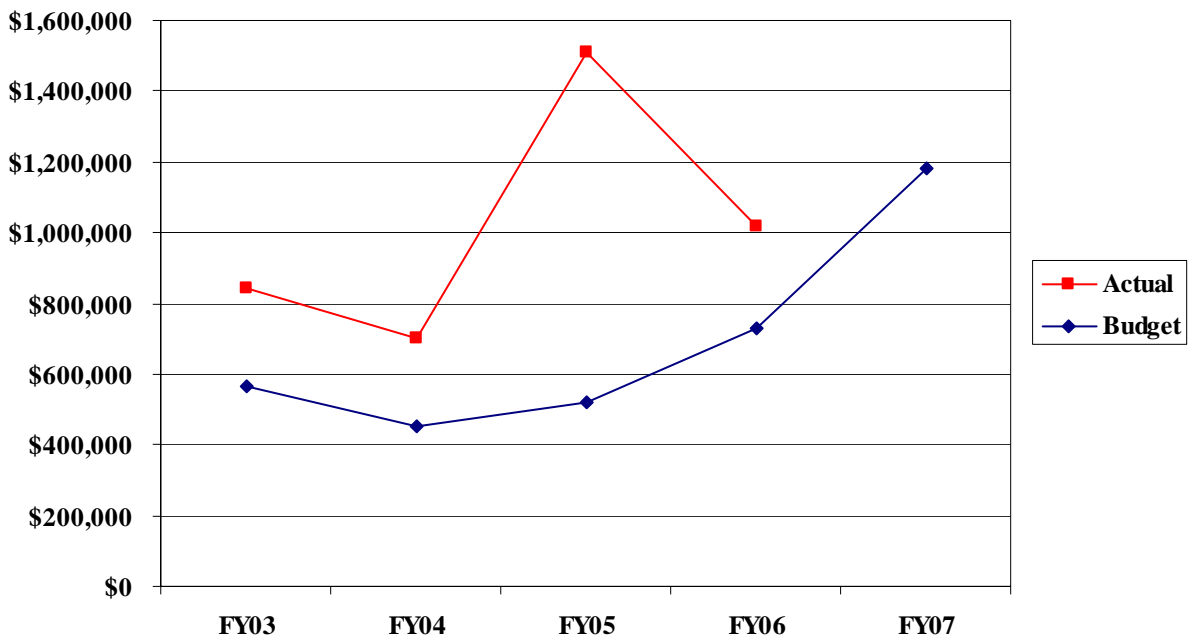



Exhibit A

											
UTIMCO Operating Expenses/Budgets FY06-FY07											
	8/31/2006			Change from 2006 Budget		8/31/2007			Change from 2006 Projected		Change from 2006 Budget
	Budget	YTD*	Projected	\$	%	Budget	\$	%	%	%	
UTIMCO Services											
Salaries and Wages + Vacation	5,463,555	3,571,374	4,807,446	(656,109)	-12.0%	5,815,449	1,008,003	21.0%	6.4%		
Bonus Compensation + Interest	1,778,784	1,347,394	1,661,284	(117,500)	-6.6%	2,670,927	1,009,643	60.8%	50.2%		
Total Compensation	7,242,339	4,918,768	6,468,730	(773,609)	-10.7%	8,486,376	2,017,646	31.2%	17.2%		
Total Payroll taxes	345,516	226,809	302,412	(43,104)	-12.5%	379,877	77,465	25.6%	9.9%		
403(b) Contributions	415,102	283,254	377,672	(37,430)	-9.0%	426,313	48,641	12.9%	2.7%		
Group Health, Dental, AD&D, Life, LTD	531,079	346,991	462,654	(68,425)	-12.9%	610,877	148,223	32.0%	15.0%		
Employee Benefit Services	6,000	3,216	4,950	(1,050)	-17.5%	4,715	(235)	-4.7%	-21.4%		
Employee Benefits	952,181	633,461	845,276	(106,905)	-11.2%	1,041,905	196,629	23.3%	9.4%		
On-Line Data & Contract Services	779,086	597,833	787,428	8,342	1.1%	881,212	93,784	11.9%	13.1%		
Recruiting and Relocation Expenses	171,000	186,250	225,000	54,000	31.6%	49,500	(175,500)	-78.0%	-71.1%		
Travel	300,488	188,531	265,000	(35,488)	-11.8%	349,320	84,320	31.8%	16.3%		
Phone Equipment and Charges	42,750	28,112	40,483	(2,267)	-5.3%	32,250	(8,233)	-20.3%	-24.6%		
Computer & Office Supplies	78,325	68,135	85,405	7,080	9.0%	85,325	(80)	-0.1%	8.9%		
Employee Education	51,410	15,108	27,450	(23,960)	-46.6%	51,175	23,725	86.4%	-0.5%		
Repairs/Maintenance	62,850	44,965	59,950	(2,900)	-4.6%	82,950	23,000	38.4%	32.0%		
BOD Meetings	37,500	41,419	42,500	5,000	13.3%	37,500	(5,000)	-11.8%	0.0%		
Other Operating Expenses	41,045	24,474	35,821	(5,224)	-12.7%	41,995	6,174	17.2%	2.3%		
Total General Operating	1,564,454	1,194,827	1,569,037	4,583	0.3%	1,611,227	42,190	2.7%	3.0%		
Total Lease Expense	307,212	283,255	307,987	775	0.3%	809,739	808,964	162.9%	163.6%		
Invest., Hiring & Board Consultants	0	12,500	17,500	17,500	N/A	17,500	0	0.0%	N/A		
Legal Expenses	175,000	164,231	255,000	80,000	45.7%	195,000	(60,000)	-23.5%	11.4%		
Compensation Consultant	25,000	35,750	65,000	40,000	160.0%	12,500	(52,500)	-80.8%	-50.0%		
Accounting fees	25,000	43,681	47,500	22,500	90.0%	45,000	(2,500)	-5.3%	80.0%		
Total Professional Fees	225,000	256,162	385,000	160,000	71.1%	270,000	(115,000)	-29.9%	20.0%		
Property/Liability Package	15,700	11,685	15,700	0	0.0%	15,750	50	0.3%	0.3%		
Umbrella Policy	6,000	4,312	5,950	(50)	-0.8%	5,950	0	0.0%	-0.8%		
Workers Compensation	11,600	7,134	11,250	(350)	-3.0%	12,250	1,000	8.9%	5.6%		
Business Auto	800	472	775	(25)	-3.1%	775	0	0.0%	-3.1%		
Commercial Bonding Policy	44,000	28,019	45,000	1,000	2.3%	45,000	0	0.0%	2.3%		
Prof., D&O & Emp. Practices Liability	183,600	136,050	181,500	(2,100)	-1.1%	182,500	1,000	0.6%	-0.6%		
Total Insurance	261,700	187,672	260,175	(1,525)	-0.6%	262,225	2,050	0.8%	0.2%		
Depreciation of Equipment	535,900	252,163	371,387	(164,513)	-30.7%	410,720	39,333	10.6%	-23.4%		
Total UTIMCO Services	11,434,302	7,953,117	10,510,004	(924,298)	-8.1%	13,272,069	2,762,065	26.3%	16.1%		
Direct Costs to Funds											
External Management Fees	20,421,000	11,072,574	14,998,239	(5,422,761)	-26.6%	16,847,098	1,848,859	12.3%	-17.5%		
External Mgt. Fees-Performance Fees	10,391,371	18,519,402	23,241,813	12,850,442	123.7%	20,585,849	(2,655,964)	-11.4%	98.1%		
External Management Fees	30,812,370	29,591,976	38,240,052	7,427,681	24.1%	37,432,947	(807,104)	-2.1%	21.5%		
Custodian Fees and Other Direct Costs	2,356,175	1,286,717	1,762,217	(593,958)	-25.2%	1,260,072	(502,145)	-28.5%	-46.5%		
Performance Measurement	621,169	368,638	526,138	(95,031)	-15.3%	530,599	4,462	0.8%	-14.6%		
Analytical Tools	289,570	253,723	336,095	46,525	16.1%	386,700	50,605	15.1%	33.5%		
Risk Measurement	803,121	152,000	358,667	(444,454)	-55.3%	850,000	491,333	137.0%	5.8%		
Custodian and Analytical Costs	4,070,034	2,061,077	2,983,116	(1,086,918)	-26.7%	3,027,371	44,256	1.5%	-25.6%		
Consultant Fees	1,100,000	619,666	808,666	(291,334)	-26.5%	1,356,000	547,334	67.7%	23.3%		
Auditing	213,920	140,000	212,000	(1,920)	-0.9%	205,000	(7,000)	-3.3%	-4.2%		
Controls Assessment (Sarbanes Oxley)	136,500	97,110	122,110	(14,390)	-10.5%	124,000	1,890	1.5%	-9.2%		
Printing	150,666	0	163,790	13,124	8.7%	182,250	18,460	11.3%	21.0%		
Bank Fees	6,000	14,606	18,006	12,006	200.1%	18,500	494	2.7%	208.3%		
Rating Agency Fees	0	10,646	10,646	10,646	N/A	0	(10,646)	-100.0%	N/A		
Legal Fees	555,000	594,173	764,483	209,483	37.7%	985,000	220,517	28.8%	77.5%		
Background Searches & Other	67,200	24,956	33,456	(33,744)	-50.2%	88,200	54,744	163.6%	31.3%		
Other Directs Total	2,229,286	1,501,158	2,133,158	(96,128)	-4.3%	2,958,950	825,792	38.7%	32.7%		
Total Direct Costs to Funds	37,111,691	33,154,210	43,356,325	6,244,635	16.8%	43,419,269	62,943	0.1%	17.0%		
Total Costs	48,545,993	41,107,327	53,866,329	5,320,337	11.0%	56,691,338	2,825,009	5.2%	16.8%		

* Actual UTIMCO Services and Direct Costs to Funds expenses as of 05/31/2006

Exhibit B

Centralized Operating Fund Expenses

	FY06				Annual v. Budget		FY07	Budget v. FY06 Annual	
	Budget	FY06 YTD ⁽¹⁾	Projected	Annualized ⁽²⁾	\$	%	Budget	\$	%
Centralized Fund Positions:									
Client Services Manager ⁽³⁾									
Manager Core Fund Investments									
Risk Management Associate									
Core Fund Analyst									
Operating Funds Sr Accountant									
Operations Associate									
UTIMCO Services Salaries ⁽⁴⁾	470,833	121,792	215,792	494,929	24,096	5.1%	453,333	(41,596)	-19.3%
Direct Costs to Funds:									
External Manager Fees	5,708,281	1,875,025	3,402,843	5,833,446	125,165	2.2%	5,956,381	122,935	3.6%
Custodian Fees	647,057	124,478	217,478	372,820	(274,237)	-42.4%	332,416	(40,403)	-18.6%
Performance Measurement	117,419	48,000	84,000	144,000	26,581	22.6%	156,650	12,650	15.1%
Analytical Tools	0	33,675	61,133	104,799	104,799	N/A	58,005	(46,794)	-76.5%
Risk Measurement	157,121	0	68,889	118,095	(39,025)	-24.8%	127,500	9,405	13.7%
Cambridge Fees	200,000	33,332	58,331	99,996	(100,004)	-50.0%	203,400	103,404	177.3%
Auditing	52,731	0	7,000	12,000	(40,731)	-77.2%	41,498	29,498	421.4%
Printing	5,250	0	0	0	(5,250)	-100.0%	5,000	5,000	N/A
Legal Fees	15,000	37,450	62,950	107,914	92,914	619.4%	72,750	(35,164)	-55.9%
Background Searches & Other	21,000	4,709	5,984	10,258	(10,742)	-51.2%	10,930	672	11.2%
Direct Costs to Funds	6,923,859	2,156,669	3,968,607	6,803,327	(120,532)	-1.7%	6,964,530	161,203	4.1%
Total Operating Fund Expenses	\$7,394,692	\$3,326,803	\$4,184,399	\$7,298,256	(\$96,436)	-1.3%	\$7,417,863	\$119,607	2.9%
Net Asset Value (\$ millions) ⁽⁵⁾	3,700.0	4,317.4	4,317.4	4,317.4			4,462.4		
UTIMCO Services (% of NAV)	0.013%	0.003%	0.005%	0.011%			0.010%		
Direct Costs (% of NAV)	0.187%	0.050%	0.092%	0.158%			0.156%		
Total Expenses (% of NAV)	0.200%	0.053%	0.097%	0.169%			0.166%		

(1) FY06 YTD actuals through May 31, 2006.

(2) FY06 annualized expenses are the estimated full year expenses based on the 7 month FY06 projected expenses and includes unfilled positions.

(3) Position is currently unfilled.

(4) The difference between FY06 budget and projected amounts are the result of the start date of the ITF and for each individual. When centralization was pushed back to February 2006 from December 2005, these positions were not filled until later in the fiscal year.

(5) The net asset value for centralized operating funds includes both the STF and ITF. FY06 projected/annualized and FY07 budget values are based on UTIMCO estimates.

Exhibit C


									
UTIMCO Operating Expenses/Budgets FY03-FY07									
	8/31/2003	8/31/2004	8/31/2005	8/31/2006		Change from 2006 Budget	8/31/2007	Change from 2006 Projected	Change from 2006 Budget
	Actual	Actual	Actual	Budget	Projected	%	Budget	%	%
UTIMCO Services									
Salaries and Wages + Vacation	3,102,883	3,773,961	4,203,100	5,463,555	4,807,446	-12.0%	5,815,449	21.0%	6.4%
Bonus Compensation + Interest	1,089,333	1,858,653	2,094,447	1,778,784	1,661,284	-6.6%	2,670,927	60.8%	50.2%
Total Compensation	4,192,216	5,632,614	6,297,547	7,242,339	6,468,730	-10.7%	8,486,376	31.2%	17.2%
Total Payroll taxes	195,076	206,777	313,637	345,516	302,412	-12.5%	379,877	25.6%	9.9%
403(b) Contributions	219,898	280,400	304,359	415,102	377,672	-9.0%	426,313	12.9%	2.7%
Group Health, Dental, AD&D, Life, LTD	201,090	259,932	315,457	531,079	462,654	-12.9%	610,877	32.0%	15.0%
Employee Benefit Services	4,490	4,984	3,949	6,000	4,950	-17.5%	4,715	-4.7%	-21.4%
Employee Benefits	425,478	545,316	623,765	952,181	845,276	-11.2%	1,041,905	23.3%	9.4%
On-Line Data & Contract Services	417,995	598,504	677,346	779,086	787,428	1.1%	881,212	11.9%	13.1%
Recruiting and Relocation Expenses	359,917	2,513	35,600	171,000	225,000	31.6%	49,500	-78.0%	-71.1%
Travel	109,138	138,855	170,069	300,488	265,000	-11.8%	349,320	31.8%	16.3%
Phone Equipment and Charges	41,990	45,660	39,340	42,750	40,483	-5.3%	32,250	-20.3%	-24.6%
Computer & Office Supplies	73,887	58,934	68,431	78,325	85,405	9.0%	85,325	-0.1%	8.9%
Employee Education	14,424	20,244	21,814	51,410	27,450	-46.6%	51,175	86.4%	-0.5%
Repairs/Maintenance	39,453	45,576	56,434	62,850	59,950	-4.6%	82,950	38.4%	32.0%
BOD Meetings	29,811	17,541	27,552	37,500	42,500	13.3%	37,500	-11.8%	0.0%
Other Operating Expenses	25,554	57,082	48,357	41,045	35,821	-12.7%	41,995	17.2%	2.3%
Total General Operating	1,112,169	984,909	1,144,943	1,564,454	1,569,037	0.3%	1,611,227	2.7%	3.0%
Total Lease Expense	606,013	599,047	600,593	307,212	307,987	0.3%	809,739	162.9%	163.6%
Invest., Hiring & Board Consultants	2,000	0	17,500	0	17,500	N/A	17,500	0.0%	N/A
Legal Expenses	500,823	183,102	579,720	175,000	255,000	45.7%	195,000	-23.5%	11.4%
Compensation Consultant	45,200	108,397	33,650	25,000	65,000	160.0%	12,500	-80.8%	-50.0%
Accounting fees	6,870	12,910	30,135	25,000	47,500	90.0%	45,000	-5.3%	80.0%
Total Professional Fees	554,893	304,409	661,005	225,000	385,000	71.1%	270,000	-29.9%	20.0%
Property/Liability Package	15,009	16,657	28,797	15,700	15,700	0.0%	15,750	0.3%	0.3%
Umbrella Policy	6,756	7,521	6,720	6,000	5,950	-0.8%	5,950	0.0%	-0.8%
Workers Compensation	14,109	18,227	17,419	11,600	11,250	-3.0%	12,250	8.9%	5.6%
Business Auto	175	186	469	800	775	-3.1%	775	0.0%	-3.1%
Commercial Bonding Policy	39,138	42,879	28,849	44,000	45,000	2.3%	45,000	0.0%	2.3%
Prof., D&O & Emp. Practices Liability	158,881	173,208	171,959	183,600	181,500	-1.1%	182,500	0.6%	-0.6%
Total Insurance	234,068	258,678	254,213	261,700	260,175	-0.6%	262,225	0.8%	0.2%
Depreciation of Equipment	286,176	261,894	272,836	535,900	371,387	-30.7%	410,720	10.6%	-23.4%
Total UTIMCO Services	7,606,089	8,793,644	10,168,539	11,434,302	10,510,004	-8.1%	13,272,069	26.3%	16.1%
Direct Costs to Funds									
External Management Fees	10,699,801	12,715,126	14,217,736	20,421,000	14,998,239	-26.6%	16,847,098	12.3%	-17.5%
External Mgt. Fees-Performance Fees	4,467,459	9,165,879	14,898,389	10,391,371	23,241,813	123.7%	20,585,849	-11.4%	98.1%
External Management Fees	12,314,265	21,881,005	29,116,125	30,812,370	38,240,052	24.1%	37,432,947	-2.1%	21.5%
Custodian Fees and Other Direct Costs	1,351,899	1,043,993	1,506,759	2,356,175	1,762,217	-25.2%	1,260,072	-28.5%	-46.5%
Performance Measurement	261,625	463,238	487,976	621,169	526,138	-15.3%	530,599	0.8%	-14.6%
Analytical Tools	218,172	284,050	289,570	336,095	336,095	16.1%	386,700	15.1%	33.5%
Risk Measurement	335,172	120,000	267,500	803,121	358,667	-55.3%	850,000	137.0%	5.8%
Custodian and Analytical Costs	1,948,696	1,845,403	2,546,285	4,070,034	2,983,116	-26.7%	3,027,371	1.5%	-25.6%
Consultant Fees	1,477,800	900,000	900,000	1,100,000	808,666	-26.5%	1,356,000	67.7%	23.3%
Auditing	168,202	205,000	158,309	213,920	212,000	-0.9%	205,000	-3.3%	-4.2%
Controls Assessment (Sarbanes Oxley)			0	136,500	122,110	-10.5%	124,000	1.5%	-9.2%
Printing	99,583	111,431	132,196	150,666	163,790	8.7%	182,250	11.3%	21.0%
Bank Fees	7,605	12,036	5,332	6,000	18,006	200.1%	18,500	2.7%	208.3%
Rating Agency Fees	21,508	22,008	21,992	0	10,646	N/A	0	-100.0%	N/A
Legal Fees	343,849	517,868	932,525	555,000	764,483	37.7%	985,000	28.8%	77.5%
Background Searches & Other	1,540	11,490	23,481	67,200	33,456	-50.2%	88,200	163.6%	31.3%
Other Directs Total	2,120,087	1,779,833	2,173,835	2,229,286	2,133,158	-4.3%	2,958,950	38.7%	32.7%
Total Direct Costs to Funds	16,048,173	25,506,242	33,836,245	37,111,691	43,356,325	16.8%	43,419,269	0.1%	17.0%
Total Costs	23,654,262	34,299,886	44,004,784	48,545,993	53,866,329	11.0%	56,691,338	5.2%	16.8%

Exhibit D Staffing Analysis

Budgeted but unfilled positions as of June 30, 2005

	Salary
* Positions filled during FY06	
Managing Director (Inflation Hedging)	
Client Services Manager	
Senior Associate (Non Marketable Alternatives) *	
Analyst (Public Markets) *	
Analyst (Inflation Hedging)	
Total	555,000

Proposed Positions Approved for FY06 Budget

	Salary
* Positions filled during FY06	
Manager of Core Fund Investments (Public Markets) *	
Associate (Risk Management) *	
Analyst of Core Fund Investments (Marketable Alternatives) *	
Sr. Accountant (Accounting & Operations) *	
Associate (Accounting & Operations) *	
Total	345,833

Budgeted but Unfilled Positions as of June 28, 2006

	Salary
3 unfilled positions	
Managing Director (Inflation Hedging)	
Client Services Manager	
Analyst (Inflation Hedging)	
Total	405,000

New Proposed Positions for FY07 Budget

	Salary
4 proposed positions	
Sr. Analyst (Public Markets)	
Analyst (Public Markets)	
Compliance Officer (Accounting & Operations)	
Admin. Assistant (Accounting & Operations)	
Total	260,000

Cathy Swain
 Director of Investment Oversight
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Date: July 26, 2006
 To: Chairman Huffines; Regent Caven; Regent Rowling; Regent McHugh; Chancellor Yudof
 Cc: Dr. Scott Kelley; Philip Aldridge; Francie Frederick; Bob Boldt
 Subject: U. T. System Total Investment Management Costs and UTIMCO Value Added

I. Executive Summary

NOTE: A material change to the budget that the BOR previewed at the July 13, 2006, joint board meeting was approved by the UTIMCO Board and shared with Investment Oversight staff on July 25, 2006. This review reflects the change that increased budgeted bonuses by \$561,000 (40% higher than presented on July 13, 2006; 61% higher than projected actual bonuses in FY06).

Highlights of the analysis of the cost effectiveness of UTIMCO's investment management of the U. T. System assets, comparing value added and total costs for fiscal years 2002-2006, are:

1. **UTIMCO performance added nearly \$1.3 billion in value for the PUF and the GEF during the five fiscal years** ending August 31, 2005, net of all investment management costs. While value added for FY06 is not finalized, zero value added is estimated based on actual performance through June 30, 2006. This could change, with two months remaining in the fiscal year and lags in some managers' reporting.
2. **Centralized management of operating funds** expands opportunities to add value and should result in higher costs. Costs decreased slightly in FY06, however, despite substantial UTIMCO and external resources dedicated to the startup of the ITF. YTD results for the ITF show positive value added relative to its policy portfolio.
3. **Total costs have increased significantly over the past five years**, both in dollar terms and as a percent of assets managed:
 - a. From nearly \$91 million in FY02 to \$213 million projected in FY06. More than \$289 million is budgeted/estimated for FY07.
 - b. From 0.66% of average annual assets under management in FY02 to a high of 1.25% in FY05; 1.05% projected based on YTD FY06; estimated 1.36% in FY07.
4. **Projected total cost increases** of 36% in FY07 are attributed mainly to higher base and performance fees netted from asset values by third party managers, reflecting the shifting investment strategy to more expensive "alternative" asset classes, active management style, and performance-based fees.
5. **Cumulative total investment management costs of approximately \$798 million** during the past five fiscal years (estimated for FY06 based on actual costs through May 31, 2006 and assuming zero valued added YTD) were recovered by a factor of 1.6 X.

Data presented in this report is from the following sources:

1. Value added by UTIMCO was estimated by Cambridge Associates, measuring UTIMCO performance relative to BOR approved policy portfolio benchmarks for the U. T. System funds from FY01 through FY05. Bruce Meyers' memo dated December 7, 2005, summarizing this analysis is included with this report.
2. Cost data provided by UTIMCO represents actual reported expenses through FY05; FY06 forecasts full fiscal year expenses based on nine months of actual reported expenses (through May 31, 2006); and

FY07 UTIMCO Services and Direct Costs to Funds are the budget as approved by the UTIMCO Board on July 25, 2006.

- Estimates for FY07 of external management fees and performance fees netted from asset values are provided by UTIMCO staff. Other Fees and Expenses for FY07 are budgeted by the U. T. System.

II. Value Added: FY02 - FY06

Table 1 below shows UTIMCO’s value added for the PUF and the GEF in dollar terms and as a multiple of both total costs and performance fees paid to third party managers. More than half of the total value of approximately \$1.3 billion was added in FY03. Value added estimates for FY06 will not be final until this fall, but performance YTD indicates value added may be zero, excluding the ITF. Performance fees at 40% of total costs cumulatively during the five year period were recovered by a factor of 4.0 X; however, there does not appear to be a smooth correlation between value added and performance fees or total costs. (See discussion of “Performance Fees” below.)

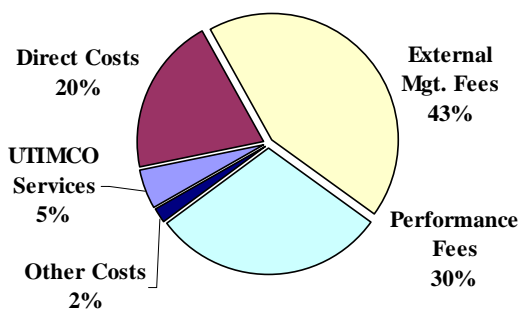
**Table 1
UTIMCO Value Added versus Performance Fees and Total Costs FY02-FY06**

Fiscal Year	\$Millions			Times Value Added	
	Value Added	Total Costs	Performance Fees	Total Costs	Performance Fees
Projected FY06	0	213	86	0.0 X	0.0 X
FY05	458	215	105	2.1 X	4.3 X
FY04	206	157	66	1.3 X	3.1 X
FY03	701	123	48	5.7 X	14.5 X
FY02	(66)	91	16	(0.7) X	(4.2) X
<i>Five-Year Cumulative</i>	<i>1,299</i>	<i>798</i>	<i>322</i>	<i>1.6 X</i>	<i>4.0 X</i>

III. Total Investment Cost Trends: FY02 - FY06

As illustrated in the chart, budgeted costs represent about 27% of projected total costs in FY06 and include UTIMCO services, direct costs to funds, and other U. T. System fees and expenses. UTIMCO Services costs support internal UTIMCO staff management of about 18% of the total assets (\$3.6 billion); selection and monitoring of external managers for 82% of the assets (\$16.4 billion); and client reporting and administration for all U. T. System funds.

**Total Investment Management Costs
\$213 Million Projected FY06**



UTIMCO does not budget for fees and expenses that are netted against asset values for investments in mutual funds, partnerships, and hedge funds managed by third parties. This practice is typical for institutional investors because performance and related costs are impossible to predict. These expenses comprise nearly three-quarters of total investment management costs. Table 2 provides details and Table 3 summarizes cost trends in the following categories:

- UTIMCO Services - direct expenses incurred by UTIMCO operations.
- Direct Costs to Funds - external management and performance fees, custody, legal, audit, consulting, risk management system, and other expenses paid directly by the funds.
- External asset management fees (excluding performance fees) netted from reported asset values for investments in third party mutual funds, partnerships, and hedge funds.

- Performance fees netted from asset values by third party managers for performance exceeding benchmarks tailored to their individual investment objectives and asset mixes.
- Other Fees and Expenses paid to U. T. System Administration and Institutions – education fee, endowment compliance fee, investment oversight, and audit expenses.

Tables 2 and 3 present actual cost data for four fiscal years ending August 31, 2005; projected costs for FY06 based on nine months of actual costs reported through May 31, 2006; and budgeted/estimated FY07 costs. Average total assets under management (AUM) include operating funds for all years; FY06 and FY07 AUMs are based on UTIMCO estimates. Centralized operating fund expenses are reflected during FY06 and FY07; expenses and asset values associated with PUF West Texas Lands are not included. Private capital partnership expenses that are netted from asset values include management fees and other partnership expenses, but performance fees and carried interests are not reported here.

**Table 2
U. T. System Total Investment Cost Summary**

(\$ millions)	FY02	FY03	FY04	FY05	Proj. FY06	Five- Year Cum.	Budget/ Estimate FY07
AVERAGE TOTAL ASSETS UNDER MANAGEMENT (AUM)	13,716	14,034	15,470	17,245	20,185		21,187
UTIMCO BUDGETED EXPENSES:							
UTIMCO Services Expenses	4.97	7.61	8.79	10.17	10.51	42	13.27
UTIMCO Services % of AUM	0.04%	0.05%	0.06%	0.06%	0.05%	0	0.06%
Direct Costs to Funds	20.10	16.05	25.51	33.84	43.36	139	43.42
Direct Costs to Funds % of AUM	0.15%	0.11%	0.16%	0.20%	0.21%		0.20%
Total UTIMCO Budgeted Expenses Paid Directly	25.07	23.65	34.30	44.00	53.87	148	56.69
Total UTIMCO Budgeted Expenses Paid Directly % of AUM	0.18%	0.17%	0.22%	0.26%	0.27%		0.27%
EXTERNAL MANAGEMENT FEES NETTED FROM ASSET VALUES:							
Non-Marketable Alternative Assets - Private Capital	36.00	32.10	36.50	38.60	44.20	187	54.60
Marketable Alternative Assets - Hedge Funds	11.80	16.40	20.30	30.50	21.50	101	57.70
Public Markets Assets	-	-	-	2.90	15.60	19	23.40
Mutual Fund Assets - Management Fees	2.80	4.20	5.70	4.50	10.20	27	9.00
Total External Mgmt. Fees Netted from Asset Values	50.60	52.70	62.50	76.50	91.50	334	144.70
Total External Mgmt. Fees Netted from Asset Values % of AUM	0.37%	0.38%	0.40%	0.44%	0.45%		0.68%
Total Direct Expenses & Netted External Mgmt. Fees w/o Perf.	75.67	76.35	96.80	120.50	145.37	515	201.39
Total Direct Expenses & Netted External Mgmt. Fees w/o Perf. % of AUM	0.55%	0.54%	0.63%	0.70%	0.72%		0.95%
PERFORMANCE FEES NETTED FROM ASSET VALUES:							
Marketable Alternative Assets - Performance Fees	12.00	44.00	56.90	90.50	52.00	255	62.70
Public Markets Assets - Performance Fees	-	-	-	-	11.00	11	19.90
Total Performance Fees Netted from Asset Values	12.00	44.00	56.90	90.50	63.00	266	82.60
Total Performance Fees Netted from Asset Values % of AUM	0.09%	0.31%	0.37%	0.52%	0.31%		0.39%
TOTAL UTIMCO COSTS INCLUDING PERFORMANCE FEES	87.7	120.4	153.7	211.0	208.4	781	284.0
Total UTIMCO Costs including Performance Fees % of AUM	0.64%	0.86%	0.99%	1.22%	1.03%		1.34%
U. T. SYSTEM FEES AND EXPENSES:							
Education Fee (LTF Only)	0.55	0.54	0.67	0.76	0.86	3	0.93
Endowment Compliance Fee (LTF only; paid to U. T. Institutions)	2.38	2.44	2.38	2.53	2.72	12	3.14
Investment Oversight Fee -- U. T. System Finance	-	-	-	0.50	0.80	1	1.01
U. T. System Internal Audit Fee	-	-	-	0.03	0.03	0	0.03
Total U. T. System Fees and Expenses	2.93	2.98	3.05	3.82	4.40	17	5.11
Total U. T. System Fees and Expenses % of AUM	0.02%	0.02%	0.02%	0.02%	0.02%		0.02%
TOTAL INVESTMENT MANAGEMENT COSTS	90.6	123.3	156.7	214.8	212.8	798	289.1
TOTAL INVESTMENT MANAGEMENT COSTS % OF AUM	0.66%	0.88%	1.01%	1.25%	1.05%		1.36%

“Total Direct Expenses & Netted External Mgmt. Fees w/o Perf.” in Table 2 above are comparable to the Cambridge Associates “UTIMCO Cost Study,” completed May 5, 2005. The study compared UTIMCO expense data for twelve months ending June 30, 2004, to a privately surveyed peer group of large public and private endowments. Performance Fees for hedge funds, partnerships, and mutual funds were excluded in the study because comparable peer data was not available. Cost increases in FY05 and projected in FY06 place UTIMCO above the FY04 median for the study’s peer universe and for private endowments surveyed, but still below the FY04 median for large public endowments.

Endowment compliance fees (the largest component of U. T. System fees and expenses) are for the Long Term Fund only, not the PUF, and are paid directly to the institutions, not to U. T. System Administration. Texas A&M shares fees and expenses indirectly, with reduced net asset value of their 1/3 share of the PUF.

Table 3
U. T. System Total Investment Cost Trend Summary

(\$ millions)	FY02	FY03	FY04	FY05	Proj. FY06	Five- Year Cum.	Budget/ Estimate FY07
UTIMCO Services	5.0	7.6	8.8	10.2	10.5	42	13.3
Direct Costs to Funds	20.1	16.0	25.5	33.8	43.4	139	43.4
External Fees Netted from Asset Values	50.6	52.7	62.5	76.5	91.5	334	144.7
Performance Fees Netted from Investment Returns	12.0	44.0	56.9	90.5	63.0	266	82.6
Miscellaneous Other Fees and Expenses:	2.9	3.0	3.0	3.8	4.4	17	5.1
TOTAL INVESTMENT MANAGEMENT COSTS	90.6	123.3	156.7	214.8	212.8	798	289.1
TOTAL % OF AVERAGE ASSETS MANAGED	0.66%	0.88%	1.01%	1.25%	1.05%		1.36%

IV. Performance Fees

Performance fees paid to third party managers have increased dramatically from \$16 million in FY02 (0.12% of average assets managed - AUM) to a high of \$105 million in FY05 (0.61% of AUM), and a projected total of approximately \$86 million in FY06 (0.43% of AUM). Performance fees paid in years when value added is less than or equal to zero overall results when performance by some managers exceed their individual benchmarks, but the portfolios overall under-perform policy portfolio composite benchmarks. Derivative positions and other internal management activities also influence portfolio asset exposures and overall portfolio performance, for better or for worse.

Table 4 shows performance fees paid directly to managers under external agency contracts and those netted from asset values for marketable alternatives (hedge funds) and public markets investment funds (mutual funds, limited partnerships, other). Performance fees netted from asset values by non-marketable alternatives managers (private capital limited partnerships) are not reported separately from management fees; and public markets assets investment in funds with performance fees netted from asset values only report these separately during FY06.

Table 4
UTIMCO Performance Fee Summary FY02-FY07

(\$ millions)	FY02	FY03	FY04	FY05	Proj. FY06	Five- Year Cum.	Budget/ Estimate FY07
Direct Costs (External Agency Agreements)	3.9	4.5	9.2	14.9	23.2	56	20.6
Public Market Assets (Netted from Asset Values)	-	-	-	-	11.0	11	19.9
Marketable Alternatives -- Hedge Funds (Netted from Asset Values)	12.0	44.0	56.9	90.5	52.0	255	62.7
TOTAL PERFORMANCE FEES	15.9	48.5	66.1	105.4	86.2	322	103.2
TOTAL % OF AVERAGE ASSETS MANAGED	0.12%	0.35%	0.43%	0.61%	0.43%		0.49%
Value Added	(66.0)	701.0	206.0	458.0	-	1,299	
X Total Performance Fees	(4.2)	14.5	3.1	4.3	-	4	-

2. U. T. System: Shared Services Initiative

RECOMMENDATION

The Chancellor, the Interim Executive Vice Chancellor for Academic Affairs, and the Executive Vice Chancellor for Health Affairs concur in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents approve the Shared Services Initiative projects as follows:

- a. approve bringing the Arlington Data Center to Tier III status (\$1.5 million);
- b. approve the acquisition of 8,000 square feet of data center space from U. T. M. D. Anderson Cancer Center (\$2.4 million); and
- c. approve full implementation of the North Texas Student Information System (SIS) Pilot Project (\$8.0 million).

Justifications for the Shared Services Initiative are more fully described in the Resource Analysis for Shared Services - Data Centers found on Pages 30 - 32 and the Resource Analysis for Shared Services - Software Applications found on Pages 33 - 34.

BACKGROUND INFORMATION

"Shared services" is the name given to a specific model for consolidating redundant information technology and business services in large organizations with multiple, geographically distributed units. It is a proven organizational strategy for achieving

1. cost savings realized through economies of scale;
2. process improvements attained through standardization; and
3. universal application of institutionally preferred practices.

The formalization of a Shared Services Initiative with clear definition and objectives, utilization of best practices, and direct U. T. System investment, as described in the August 2006 Agenda Item, is the next step in this evolutionary process. The Shared Services Initiative is consistent with and recommended in the proposed U. T. System Strategic Plan for 2006-2015. The Plan noted that shared services was a logical way to improve productivity and efficiency.

Also included as background information is analysis provided by U. T. Austin of a potential regional data center located in Austin. The U. T. Austin analysis can be found on Pages 35 – 43.

Resource Analysis for Shared Services - Data Centers

Requirements

Each of the 15 campuses and U. T. System Administration require access to a highly reliable primary data center and availability of a high-reliability off-site facility that can support redundant storage for critical data and ongoing operations in the event of a disaster affecting the primary data center.

Recommendations

Rather than establishing 15 or 16 high-reliability back-up centers, or relying on campuses to individually procure off-site support for disaster recovery and business continuity operations, or relying on ad-hoc reciprocal arrangements, it is more efficient and cost-effective for the U. T. System to establish and oversee a high-reliability regional data center or centers to provide this back-up. Consistent with the principles of shared services, the center or centers would be governed by a board comprised of representatives of the participating U. T. institutions and led by a U. T. System representative.

To reduce the cost of this regional data center or centers, it is recommended that each be integrated into a data center operated by and serving one of the U. T. institutions as its primary data center. This avoids redundant staffing and operating costs, minimizes capital costs, and takes advantage of experienced staff already in place. Also, by integrating the regional data center into an existing operation, an opportunity is provided for consolidation of institutional primary data centers.

However, by integrating the regional data center or centers into an existing campus data center, multiple regional centers are required to provide needed redundancy. For example, while the Arlington Data Center will function as an off-site high-reliability redundant facility for other campuses and as the primary data center for U. T. Arlington, U. T. Arlington will still need access to an off-site, redundant data center for its data and operations. By having a second regional data center, campuses such as U. T. Dallas or U. T. Tyler may ultimately choose to utilize the Arlington Regional Data Center as its primary data center and the second regional center for back-up.

Opportunities

Three opportunities either have become or will become available to permit the above recommendations to be implemented.

1. U. T. Arlington purchased a large (16,500 square feet) data center near its campus to serve as its primary data center. In March 2006, the U. T. System Board of Regents authorized the use of Permanent University Funds (PUF) to “purchase” that facility from U. T. Arlington and make available 6,700 square of unused space in the facility for use by other U. T. institutions.

As a result, the U. T. System has its first regional data center, operated by U. T. Arlington and already in use by other U. T. institutions.

2. U. T. M. D. Anderson Cancer Center owns and operates a remote data center in Houston. The facility includes 8,000 square feet of Tier III data center space and 3,600 square feet of unused office space. At a relatively modest cost, the 3,600 square feet of office space can be upgraded to Tier III data center space and used by other campuses in the U. T. System. Operations of this facility could be overseen by the staff at U. T. M. D. Anderson Cancer Center with little or no increase in operating costs.

By having a second regional data center, off-site back-up could be provided to U. T. Arlington and any other campus choosing to use the Arlington Data Center as its primary data center.

3. U. T. Austin is in need of replacing its primary data center. U. T. Austin provides a number of administrative systems to U. T. institutions throughout the state, is home to the Texas Advanced Computing Center (TACC), and has long experience operating reliable production centers which are staffed 24 hours a day, 7 days a week. By including space for use by other campuses in the plans for a new U. T. Austin data center, we could efficiently add a third regional back-up center to the U. T. System.

Three operating Tier III regional data centers in the U. T. System, each integrated into the operations of a campus data center, would provide high-reliability data center space for all 15 campuses and the U. T. System; would result in only minimal increases in operating costs; would provide full redundancy of data, disaster recovery and business continuity; and would allow for consolidation of institutional primary data centers as appropriate.

Resource Analysis

The costs of establishing and operating three Tier III regional data centers are as follows:

Capital Costs*

- Purchase 16,500 square feet data center in Arlington (total cost of \$8,500,000 includes 9,800 square feet as U. T. Arlington primary data center and 6,700 square feet as regional center). (\$ 3,450,000)
 - Upgrade Arlington Data Center (\$ 1,500,000)
 - Build out 3,600 square feet of Data Center Space in Houston (\$ 2,400,000)
 - Build 25,000 square feet data center in Austin (total cost of \$62,500,000 includes 20,000 square feet as U. T. Austin primary data center and 5,000 square feet as a regional center). (\$12,500,000)
- Total Capital Costs

*Please note that \$8.445 million has already been approved and allocated by the Board of Regents in March 2006. This item recommends approval to spend \$3.9 million from PUF to upgrade the Arlington

Data Center and build out the Houston Data Center. \$62.5 million estimated for the Austin Data Center replacement has not yet been requested or funded, but approximately \$50.0 million of that will be required to replace the existing U. T. Austin Data Center even if the Regional Data Center is not pursued.

Annual Operating Costs

- Oversight and management of Regional Data Centers (\$ 300,000)
With the Regional Data Centers integrated with an institution's primary data center, there is virtually no marginal increase in operating costs.

One-time Cost Savings and/or Cost Avoidance

- Cost of building a single back-up data center accommodating the same 15,100 square feet noted above \$37,750,000

Annual Operating Savings and/or Cost Avoidance

- Estimated additional operating costs of running a 24x7 Tier III data center \$ 1,000,000

It is possible to build one Tier III data center and have it staffed by a campus, reducing the marginal operating costs of staffing a stand-alone center, but then again, the institution running the regional data center would need a back-up site of its own.

Opportunities may be available to secure Tier III space in other ways than to build new. U. T. Austin is exploring those options as it considers how to replace its existing data center. Still, with the regional centers in Arlington and Houston, over 10,000 square feet of Tier III data center space can be made available to U. T. System campuses at a capital cost of \$735 per square feet versus \$2,500 per square feet to build new. That represents a savings of \$17.65 million. And there is no increase in marginal operating costs.

Campuses might contract with an existing data center to provide needed back-up, but such contracts typically amortize the capital costs into the fee, include a profit margin for the provider and do not provide the same level of quality assurance, protection, and flexibility as a service provided internally.

Finally, multiple regional data centers operated by U. T. Arlington, U. T. M. D. Anderson Cancer Center and U. T. Austin will allow the opportunity for further consolidation of institutional primary data centers.

Resource Analysis for Shared Services – Software Applications

Requirements

Each of the 15 campuses and U. T. System Administration require appropriate administrative software systems to efficiently track and control financial and human resource data, to register students and to handle a variety of other key administrative functions. In addition, U. T. institutions and the U. T. System must regularly consolidate and report critical data to internal decision makers and external constituents.

Recommendations

While each U. T. institution is somewhat unique in its mission, size and structure, certain administrative functions are common across all institutions. In order to efficiently gather and accurately report data, standardization of some of these administrative systems would be helpful.

Regarding the software applications that support administrative systems, each campus is in a different stage of development and investment. Some institutions have recently invested significant resources in installing or upgrading their administrative software and have not yet fully amortized the cost of that investment, while others are currently in dire need of investment in this area.

It is recommended that the U. T. System provide guidance and leadership in creating a commonly accepted vision of consolidated administrative systems and work with campuses over time to help them move toward that vision in the most cost-effective way that ensures efficient delivery of their operational mission. The shared services model will be used to guide software consolidation as we move forward.

Opportunities

Currently, U. T. Arlington is just finishing the implementation of a PeopleSoft Student Information System (SIS) project. U. T. Dallas and U. T. Tyler are both in need of new student information systems and U. T. Dallas has been pursuing its own implementation of a different software product. Given a drive toward consolidation, it is recommended that this opportunity be used to begin a joint SIS implementation with U. T. Arlington, U. T. Dallas and U. T. Tyler. This approach will allow implementation of the student information system on two campuses at a savings of more than 25% (\$4.0 million). It will also lower ongoing maintenance costs, facilitate upgrades and reporting, and provide key information on how U. T. System might proceed with future consolidations.

In conjunction with the joint SIS implementation, the U. T. System will lead discussions with campus representatives regarding a common chart of accounts and consolidated financial reporting. U. T. Austin is also reviewing the viability of “Define” a financial and

human resource software application currently used by six U. T. institutions and will share those findings to help with U. T. System's long-term vision and consolidation plan.

Resource Analysis

The estimated cost of separately implementing the PeopleSoft student information system at both U. T. Tyler and U. T. Dallas is roughly \$16.0 million. The preliminary budget for purchasing and implementing the PeopleSoft SIS product at U. T. Dallas and U. T. Tyler, as well as finishing the implementation at U. T. Arlington is approximately \$12.0 million, which represents a savings of \$4.0 million.

U. T. System is requesting that \$8.0 million of the \$12.0 million in implementation costs be funded from the Permanent University Fund (PUF) with the remaining implementation costs and all future operating and maintenance expenses be shared by the participating U. T. institutions.

Future investments in software for the U. T. System will be significant. Given U. T. System's size and complexity, an estimate of the resources needed just in the area of administrative systems could average \$20 to \$25 million annually. Those investments will be required whether or not U. T. System proceeds with the Shared Services Initiative. However, by consolidating the administrative software applications, the implementation and maintenance costs can be reduced by 25% to 33%. This represents a potential savings of \$50 to \$80 million over the next decade while increasing overall operational efficiency and promulgating best practices throughout the U. T. System.

The Shared Services Initiative provides an incentive for campuses to participate in administrative software consolidation by funding some of the implementation costs centrally. While the amount of central support will vary from project to project and is subject to U. T. System Board of Regents' approval, it is envisioned that future requests for project funding (from PUF) will be brought to the Board of Regents.

UT System Information Technology Shared Services – Data Centers The Case for a Third Data Center in Austin

It is recommended that the three regional data centers be located in Arlington, Houston and Austin. These locations provide regional access to the LEARN network, allow for necessary geographic dispersion, have access to qualified personnel needed to operate the centers, and have provided a match between space available and local needs. ...

U.T. Austin is in great need of a new data center. Rather than attempt to replace their current facility, it is more advantageous to pursue the acquisition and/or construction of a regional data center facility in Austin that would both serve Austin's needs and function as a third U.T. System regional data center. It is estimated that 20,000 square feet of Tier III data center space would be needed to serve U.T. Austin and potentially, U.T. San Antonio, U.T. Permian Basin, and U.T. El Paso. The staff at U.T. Austin is supportive of a regional data center concept and is assisting with the planning, cost estimates and business case. A recommendation for System investment is not ready at this time, but will be forthcoming once plans become more complete.

– Agenda Book, August 9-10, 2006, meeting, University of Texas System Board of Regents

Background

Recent natural disasters in our region – Tropical Storm Allison in 2001, and Hurricanes Katrina and Rita in 2005 – caused substantial damage to academic health centers and universities, including data centers supporting instruction, research, patient care, administration, and communications. In addition a 2004 report by the State Auditors Office raised concerns about the security and recoverability of data supporting research at three UT System campuses. Accordingly all 15 UT campuses, as well as the System Administration, require a highly reliable primary data center as well as availability of a high-reliability off-site facility that can support both redundant storage for critical data and ongoing operations in the event of a disaster affecting the primary data center. (See Appendix I for explanation of “Data Center Tiers.”)

Rather than establishing 15 such centers, or trusting to reciprocal or other ad hoc arrangements, the Chancellor's Office has recommended that three regional centers be established to support business continuity and disaster recovery for the UT System. To reduce the cost of these regional centers, the Chancellor's Office recommends their integration into data centers that also serve one of the UT campuses.

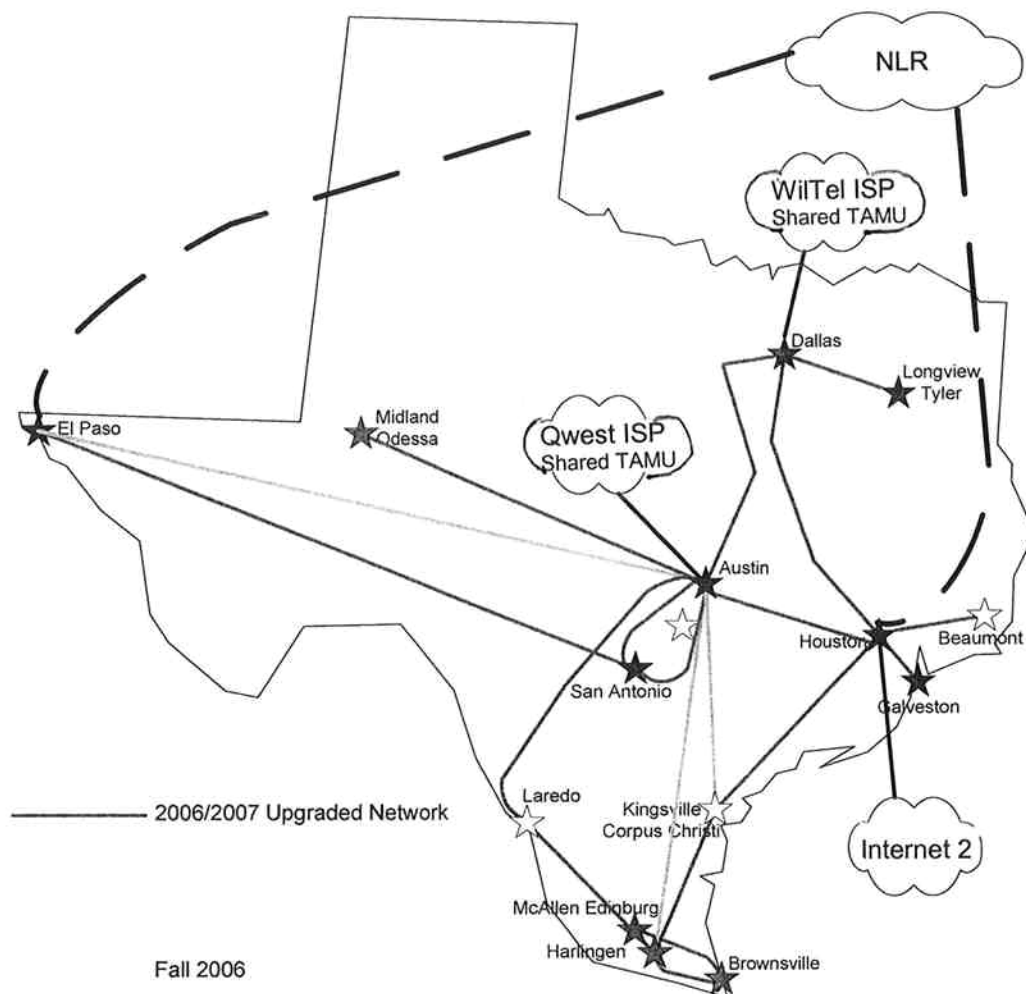
The Regents previously authorized purchase of a building in Arlington containing a 16,500-square foot, raised-floor data center, at a cost of \$8.5M, which will be managed by UT Arlington and provide an estimated 6,700 square feet for use by other UT campuses. An additional \$1.5M has been recommended by the Chancellor's Office to upgrade this facility to “Tier III” reliability status. The Chancellor's Office has also recommended expenditure of \$2.4M to convert 3,600 square feet of office space to Tier III, shared data center use at the UT M.D. Anderson remote data center in suburban Houston. (This would augment the 8,000-square foot data center at this location.) Both of these recommendations were discussed at the August, 2006 Regents meeting with no action taken. Also discussed was the Chancellor's Office recommendation to establish a third Tier III regional data center in Austin.

The Case for Austin as the third UT System Shared Services Data Center

Locating the third UT System regional data center in Austin has the following advantages:

- UT Austin for many years has provided a wide range of shared services to other UT campuses, including:
 - the DEFINE (DEpartmental Financial Information NETwork) integrated financial, payroll, and budgeting system used by UTA, UT Austin, UTEP, UTPB, UTSA, UTT, and UT System
 - the DEFINE budgeting system used by UTB, UTPA, and UTHSC-Houston
 - the UT System Digital Library, used by all campuses and the UT TelecampusThese software and data resources reside on common hardware platforms in the UT Austin data center. They leverage the deep expertise in administrative and library information systems design, software development and maintenance, user support, and data center operation available at UT Austin to provide cost-effective and standardized services across the UT System.
- The data center supporting the above and other critical UT Austin information resources is located in an obsolete building that also houses various physical plant services, including high-pressure steam pipes, as well as hazardous materials. Not only is this a high-risk location for critical computer and communication services, but also the site, on the central campus, occupies real estate desired for academic purposes. Consequently this data center must be replaced as soon as possible. (UT Austin, with financial support from UT System, is already moving forward on a multi-year project to relocate from this same building the two NOCs (data network operations centers) supporting UT Austin and the THEnet, the statewide network supporting UT System.)
- UT Austin has long experience operating reliable production data centers, which are staffed 24 hours per day, 7 days per week. UT Austin staff expertise extends to multiple hardware and operating systems – including mainframes, Windows and Unix servers – multiple data storage configurations – including direct attached, network attached, and storage area networks – and specialized products – such as anti-spam and load balancing appliances and intrusion detection systems. Managing systems from other UT campuses would be unlikely to present new technical or operating challenges.
- One of the benefits of a modern and well-managed university data center is the capability to host research computing equipment otherwise housed in numerous academic buildings, often with high marginal costs and worrisome security risks. Many researchers have preferred over the years to locate such equipment near their offices and labs, however the power, cooling, and security requirements of these newer systems are increasingly difficult to accommodate in buildings designed for academic use. Research universities are finding it advantageous to provide “empty racks” in central data centers, where researchers can locate their equipment, often on short notice when a grant proposal is funded. UT Austin, as the largest research university in the System, has a vast amount of distributed research computing and data storage, and, accordingly, stands to achieve substantial economies from centralization once a modern and capacious center is available in Austin.

- UT Austin is also the location of the Texas Advanced Computing Center (TACC), one of the nation's premiere supercomputing facilities – and a key scientific resource for the entire UT System. This state-of-the-art facility requires deep technical and operational expertise that complements the staff in the UT Austin central Information Technology Services organization. In addition TACC requires the most advanced networks to connect UT Austin with both “client” universities and other high performance computing centers around the country, which are increasingly being utilized by scientists via a nationwide “grid” architecture. The envisioned UT System regional shared services data center also needs advanced networking support, so this investment can serve multiple purposes.
- Given the topologies of LEARN (Lonestar Education And Research Network) and THENet (Texas Higher Education Network, operated by UT Austin on behalf of UT System) as shown below, Austin is ideally situated, on four protected network rings (Dallas-Houston-Austin-Dallas; Austin-San Antonio-Austin; Austin-Laredo-Edinburg-Harlingen-Brownsville-Corpus-Christi-Houston-Austin; and Austin-San Antonio-El Paso-Houston-Austin). Thus Austin can serve the business continuity and disaster recovery needs of UT campuses in the Dallas and Houston areas as well as those in San Antonio, El Paso, and the Rio Grande Valley. In addition Austin is the gateway between the UT System network and the commercial Internet (via the Internet Service Provider, Qwest), so Austin is the ideal location for other campuses' backup services in the event that that a disaster results in relocation to temporary quarters that are not served by dedicated research and education networks.



Scoping Options for a Shared Services Data Center in Austin

A UT System Shared Services Data Center in Austin could serve three important constituencies:

- UT Austin's central Information Technology Services (ITS) department, which operates a set of campus-wide academic and administrative computing and communications systems, including course management, financial, payroll, student information, development, electronic mail and calendaring, web services, *et al.*
- Other UT academic and administrative units, many of which currently operate servers and storage devices in facilities ill suited for this purpose. Although many scientists and other researchers have shown a strong preference over the years for locating computing equipment close to their offices and labs, increasing demands for power, cooling, and security make location outside of a well-equipped data center problematic.¹
- Other UT campuses plus the UT System, which can benefit from having access to a robust data center, staffed 24x7, available for business continuity and disaster recovery. (It is possible UT System would choose to locate its primary production equipment in this center, with backup systems in Arlington or Houston.)

The table below provides a preliminary estimate of the demand for raised-floor data center square footage from each constituency in the near, middle, and longer terms:

	0-2 years	3-5 years	6-10 years
UT Austin ITS	4,000 - 5,000	5,000 - 8,000	8,000 - 15,000
UT Austin academic & admin units (*)	2,000 - 3,000	3,000 - 4,000	4,000 - 5,000
Other UT campuses & UT Chancellor's Office	2,000 - 3,000	3,000 - 4,000	4,000 - 5,000
Total	8,000 - 11,000	11,000 - 16,000	16,000 - 25,000

As noted, the primary data center for UT Austin is housed in an obsolete building located on central campus real estate desired for academic purposes. Co-located in the building are the primary campus telephone switch, data network operations centers for both the campus network and THENet, and associated cabling. In addition, Information Technology Services (ITS) has 100 employees in this building, so its demolition requires identifying space for them.

-
- ¹ The Texas Advanced Computing Center (TACC), one of the nation's premier academic supercomputing facilities, is not included in this discussion of shared services, since the characteristics of supercomputing centers differ substantially from other production IT services. Specifically supercomputing imposed both higher demands for power and cooling, due to the density of high-performance components, and lower reliability requirements. TACC currently occupies a 3,800-sq ft data center and adjacent offices in the Commons Building on the UT Austin Pickle Research Campus (PRC). A new building for TACC is under construction with a 6,000-sq ft data center, and provision for 6,000 sq ft of additional data center facilities as needed.

UT has been exploring on- and off-campus sites in the Austin area for a new data center with four locations now under active review:

Option	Advantages	Disadvantages	Other
(1) UT Central Receiving Bldg (CRB), east of I-35. No existing data center.	13,000-sq ft data center feasible in largest open area. Secure UT building on central campus. On UT fiber network. On UT power grid. Large loading dock. Onsite parking. Potentially expandable	Building aging, not intended for data center. Very little space for offices unless building is expanded.	Good option for at least 5 years. CDL might serve for offices
(2) Existing 3,800-sq ft data center in Commons Bldg, on Pickle Research Campus (PRC), north of Route 183	UT bldg on UT land Data center in place, with UTnet over GAATN fiber, used by TACC. May be surplus when new TACC building comes on line. Expandable at modest cost. Numerous offices in bldg Food service in bldg	Power may be a problem, given TACC demand in their new facility, also on PRC. No backup power in facility today.	Existing data center too small, even for initial deployment. Some security concerns, given conferences in Commons Building
(3) New TACC Bldg, under construction on Pickle Campus	New building under construction contains 6,000-sq ft data center. Building plan anticipates expansion by an additional 6,000 sq ft. Operational & staffing synergies with TACC.	Power may be a problem, given TACC demand. Also TACC's success with federal grants and corporate partnerships may require the second 6,000 sq ft data center.	
(4) 1616 Guadalupe St., former SBC Bldg, now vacant	Two data centers in bldg today, with total of about 10,000 sq ft of raised floor. Other data centers could be built on floors above first. Generous space for offices. Large parking garage Bldg could be expanded. Location between UT campus & UT System	Price to own or lease not yet known. Not clear that owner is willing to sell. Not on UT fiber, although GAATN fiber ring runs next to the property. No backup power.	Attractive alternative pending due diligence and cost.

Additional analysis of these options will be carried out as soon as possible.

Cost Considerations

The one-time costs to build and equip a modern data center can be grouped into several categories:

- Property acquisition and building shell demolition, renovation, and construction
- Data center fit out, including raised floor, primary and secondary power distribution, primary and secondary cooling, primary and secondary external network service, equipment racks, cable trays, operator facility, physical security system, adjacent facility for equipment testing, loading dock and receiving area, and, potentially, secondary power generation and fuel storage
- Electronic equipment – servers, storage, networking, monitoring, *et al* – and associated network cabling. In some cases this equipment will be moved from an existing facility; in other cases new equipment must be purchased.
- Fitout and equipping of adjacent offices, meeting rooms, staff break rooms, reception areas, *et al.*, as appropriate.

If demand for raised floor data center square footage is predicted to increase substantially over time, as is assumed for the Austin Shared Services Data Center, it may be desirable to design the facility with an initial data center footprint that can be expanded later. This approach was followed recently at the University of California-Berkeley, with utilities designed for expansion and space adjacent to the initial data center allocated to temporary office and storage uses.

The Uptime Institute, a data center consultancy, provides a mathematical model to estimate data center costs, based upon assumed square footage as well as power consumption, measured in Watts per square foot. For an initial, 10,000-sq ft facility, the cost estimates are as follows for three estimates of power consumption, as well as two levels of overall reliability, Tier II and Tier III:

		Tier II		Tier III	
Sq ft	Watts / sq ft	Total Cost	Cost / sq ft	Total Cost	Cost /sq ft
10,000	80	\$11,000,000	\$1,100	\$18,200,000	\$1,820
10,000	100	\$13,200,000	\$1,320	\$22,200,000	\$2,220
10,000	120	\$15,400,000	\$1,540	\$26,200,000	\$2,620

Whereas estimates for an initial 25,000-sq ft center are as follows:

		Tier II		Tier III	
Sq ft	Watts / sq ft	Total Cost	Cost / sq ft	Total Cost	Cost /sq ft
25,000	80	\$27,500,000	\$1,100	\$45,500,000	\$1,820
25,000	100	\$33,000,000	\$1,320	\$55,500,000	\$2,220
25,000	120	\$38,500,000	\$1,540	\$65,500,000	\$2,620

These estimates include construction costs for the building shell, and can vary plus or minus 30%. No estimation has been done on a potential two-stage fit out. For comparison, costs for the data centers at UTHSC-Houston and UC-Berkeley are shown in Appendices II and III, respectively.

Appendix I: Uptime Institute Tier Rating System for Data Centers²

Tier Requirements

	Tier I	Tier II	Tier III	Tier IV
Number Of Delivery Paths	Only 1	Only 1	1 Active 1 Passive	2 Active
Redundancy	N	N + 1	N + 1	S + S or 2 (N + 1)
Compartmentalization	No	No	No	Yes
Concurrently Maintainable	No	No	Yes	Yes
Fault Tolerance To Worst Event	None	None	None	Yes

SOURCE: UPTIME INSTITUTE

Tier I: A single path for power and cooling distribution, without redundant components, providing 99.671% availability

Tier II: A single path for power and cooling distribution, with redundant components, providing 99.741% availability

Tier III: Multiple active power and cooling distribution paths but only one path active, redundant components, concurrently maintainable, providing 99.982% availability

Tier IV: Multiple active power and cooling distribution paths, redundant components, fault-tolerant, providing 99.995% availability...

Tier I sites have computer power distribution and cooling but may not have raised floors, UPSes, or engine generators. The critical load on these systems is up to 100% of N. Even with a UPS or generator, they likely are single-module systems and have many single points of failure. The infrastructure should be completely shut down on an annual basis to perform preventive maintenance and repair work. Urgent situations may require more frequent shutdowns.

Tier II centers have raised floors, UPSes, and engine generators. Their capacity design is N+1, which has a single-wired distribution path throughout. Maintenance of the critical power path and other parts of the site infrastructure still requires a processing shutdown.

In a Tier III center, most functions, including preventive and programmable maintenance, repair and replacement of components, and testing of systems, can be done without disrupting operation of hardware systems.

Tier IV is the best going, but even a fault-tolerant and concurrently maintainable Tier IV site does not meet the celebrated requirement of five nines (99.999%) uptime. The best a Tier IV site is expected to deliver over time is 99.995% reliability.

² "How's and Why's of Data Center Tiers," *Processor*, vol 28, issue 18, May 5, 2006, p. 30.

Appendix II: New Data Center at UT Health Science Center-Houston

This facility is now in production, although a few remaining “punch list” items remain to be addressed. The building contains no offices, per se; the only personnel are data center operators.

Square footage allocations:

- Server floor space, 5,000
 - Populated with racks, etc, 3,750
 - Available for future growth, 1,250
- Network and fiber infrastructure, 400
- Storage (convertible to servers, if needed), 600
- Printers (convertible to servers, if needed), 400
- Total building footprint, 7,500
- Provision for expansion, 3,000

Availability goal: between Tier II and Tier III

- Redundant uninterruptible power supply (UPS) equipment, chillers, chilled water pumps, air handlers, generator, power leads into the facility, network gear/paths, etc.
- No current provision for redundant power providers, or service connection.

Other data:

- Project cost, \$3.3 million, including all new racks, KVM infrastructure, Fibre Channel infrastructure, furniture, security, video surveillance, uninterruptible power supply (UPS) equipment, some network equipment, etc.
- Currently running at 35% electrical & 35% chilled water capacity, so building infrastructure is judged to be adequate, even when the entire 5,000 sq ft is populated
- Estimated cost to populate remaining 1,250 sq ft with racks, air handlers, network, *et al.*, \$300,000

Cost per square foot calculations:

	Project cost (*)	sq ft	\$/sq ft
Nominal	\$ 3,300,000	7500	\$ 440
Nominal, full build out	\$ 3,600,000	7500	\$ 480
Server area as built	\$ 3,300,000	5000	\$ 660
Server area, initial use	\$ 3,300,000	3,750	\$ 880
Server area, full buildout	\$ 3,600,000	5000	\$ 720

(*) Cost does not include server and storage hardware, software, installation

Source: Kevin Granhold, UTHSC-Houston, email, September 5, 2006

Appendix III: New Data Center at University of California-Berkeley

Opened July 2004, after a lengthy process

- 7 years to justify need and demand (seismic standards a factor)
- 2 years to obtain budget approval
- 18 months to build base building
- 6 months to build data center within the building
- 1 weekend to move in

Move provided opportunities

- Eliminate older systems
- Phase out legacy technologies
- Reduce complexity
- Consolidate platforms
- Implement standard backup and storage architectures
- Reduce demand for departmental server/storage facilities

Square Footage

- Phase I: 10,000
- Phase II expansion: 2,000
- Phase III expansion: 5,000

Costs

- Total project: \$34.7M
- Base building: \$23M
- Data center & move: \$11.7M
- Electrical @ 2,500 KVA: \$4.4M
- HVAC @ 300 tons WaterGlycol: 925K
- Networking @ Cat7/Cisco 6509: \$2.2M
- Move @ 300 servers: \$1.3M
- Server area cost/sq ft: ($\$10.4M / 10,000$) = \$1,040 / sq ft

Lessons Learned

- Expert data center consultant was invaluable
- 65-80 Watts/sq ft adequate – if provision made for separate ultra high-density room
- Design for expansion
- Design for lights out & management by remote access
- Use the move opportunity to plan change

Source: Shelton Waggener, "UC Berkeley Data Center Overview," Educause Net@edu conference, Tempe, AZ, February, 2006

3. **U. T. System Board of Regents: Approval of the U. T. System-wide Internal Audit Plan for Fiscal Year 2007**

RECOMMENDATION

The Audit, Compliance, and Management Review Committee recommends that the U. T. System Board of Regents approve the proposed U. T. System-wide Internal Audit Plan for Fiscal Year 2007. Development of the Internal Audit Plan is based on risk assessments performed at each institution. Implementation of the Plan will be coordinated with the institutional auditors.

The full audit plan, including an executive summary on Pages 47 - 48, is attached Pages 45 - 89.

BACKGROUND INFORMATION

Institutional Audit Plans, compiled by the internal audit departments after input and guidance from the System Audit Office, Offices of Academic or Health Affairs, and the institution's management and Institutional Audit Committee, were submitted to all Institutional Audit Committees and institutional presidents for review and comments.

The Chief Audit Executive provided feedback by conducting audit hearings with each institution. After the review process, each Institutional Audit Committee formally approved its institution's Plan.

**THE UNIVERSITY OF TEXAS SYSTEM
SYSTEM-WIDE AUDIT PROGRAM**



**INTERNAL AUDIT PLAN
FISCAL YEAR 2007**

Mr. Charles G. Chaffin, Chief Audit Executive
The University of Texas System
201 West 7th Street, ASH 810
Austin, TX 78701

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Executive Summary

The University of Texas System-wide fiscal year 2007 Internal Audit Plan (2007 Audit Plan) is a blueprint of the internal audit activities that will be performed by the internal audit function throughout The University of Texas System in FY 2007. Individual audit plans were prepared at each institution and approved by the Institutional Audit Committee.

The Director of Audits provided direction to the internal audit directors prior to the preparation of the audit plans and provided formal feedback through conducting “audit hearings” with each institution. The process of preparing the audit plans is risk based and ensures that activities with the greatest risk are audited.

The efforts of the internal audit function continue to expand into areas other than the performance of traditional audits. Examples of added services include: providing continued assistance in the System-wide Compliance Initiative, the System-wide External Financial Audit, implementation of Enterprise Risk Management, and performing consulting projects and special investigations at the request of management.

The 2007 Audit Plan illustrates an economic and efficient use of internal audit resources, and addresses the risks of The University of Texas System by planning activities as follows:

Area	Audit Hours	% of Total Hours
UT System Requested	24,360	18%
Externally Required	12,645	10%
Risk Based	48,658	36%
Change in Management	8,702	7%
Follow-up	4,067	3%
Projects	35,288	26%
Total	133,720	100%

	UT System Requested	Externally Required	Risk Based	Change in Management	Follow-up	Projects	Total
U. T. System Administration	1,450	1,790	8,100	800	300	10,522	22,962
Large Institutions:							
U. T. Austin	2,850	400	3,325	2,200	800	5,150	14,725
U. T. Southwestern	2,350	1,400	6,150	1,700	200	3,055	14,855
U. T. Medical Branch at Galveston	1,780	1,800	3,580	380	600	3,660	11,800
U. T. HSC - Houston	1,795	875	6,748	-	-	540	9,958
U. T. HSC - San Antonio	2,930	730	1,385	200	320	1,135	6,700
U. T. MDA Cancer Center	2,700	800	6,600	250	300	3,010	13,660
Subtotal	14,405	6,005	27,788	4,730	2,220	16,550	71,698
Mid-size Institutions:							
U. T. Arlington	1,380	1,050	2,350	-	260	710	5,750
U. T. Brownsville	790	340	950	500	100	968	3,648
U. T. Dallas	700	235	2,640	700	100	698	5,073
U. T. El Paso	1,480	900	3,020	500	450	1,565	7,915
U. T. Pan American	905	660	880	770	120	1,130	4,465
U. T. San Antonio	1,490	890	1,850	-	300	2,389	6,919
Subtotal	6,745	4,075	11,690	2,470	1,330	7,460	33,770
Small Institutions:							
U. T. Permian Basin	340	305	240	230	57	40	1,212
U. T. Tyler	570	140	840	312	60	454	2,376
U. T. HC at Tyler	850	330	-	160	100	262	1,702
Subtotal	1,760	775	1,080	702	217	756	5,290
TOTAL	24,360	12,645	48,658	8,702	4,067	35,288	133,720
Percentage of Total	18%	10%	36%	7%	3%	26%	100%

Appendix A ~ *Large Institutions*

U. T. System Administration

U. T. Austin

U. T. Southwestern Medical Center at Dallas

U. T. Medical Branch at Galveston

U. T. Health Science Center at Houston

U. T. Health Science Center at San Antonio

U. T. M. D. Anderson Cancer Center

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION

(Part 1 of 3 - Audit)

FY 2007 Budgeted Expenditures: \$164,613,006

17.2 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

FY 2007 Audit Plan - System Administration & UTIMCO Audits/Projects		Budgeted Hours	% of Total
UT System Requested			
<i>Audits</i>			
D&T financial statement assistance		200	
Chancellor's travel & entertainment		150	
Jackson Estate		150	
Subtotal		500	5%
Externally Required			
<i>Audits</i>			
JAMP		150	
TAC 202		200	
Confidential data		200	
Time and effort reporting		40	
Subtotal		590	5%
UTIMCO			
<i>Audits</i>			
<i>Risk-based:</i>			
Asset allocation		300	
Code of ethics		200	
Investment manager contract review		100	
Front office activities		800	
Subtotal		1,400	13%
Meetings/oversight activities		200	
Internal controls over financial reporting		400	
Financial statement assistance		200	
CEO travel and entertainment		100	
Follow-up		200	
Special Requests		400	
Carryforward		100	
Subtotal		1,600	15%
Institutional Risk-based			
<i>Audits</i>			
Public Information Act response and records management		150	
Self-insurance risk management		350	
OFPC project management		900	
Oil and gas producers		1,500	
Office of Employee Benefits financial reporting		300	
Business continuity/disaster recovery		150	
Finance		150	
Controller's office		150	

West Texas Operations	150	
TeleCampus	150	
OFPC	150	
Subtotal	4,100	38%
<i>Consulting</i>		
West Texas Operations	50	
Subtotal	50	0%
IT Institutional Risk-based		
<i>Audits</i>		
Filenet	300	
Student project TBD	50	
<i>Consulting</i>		
Risk assessment	50	
IT Security	100	
Subtotal	500	5%
Change in Management		
OTIS	150	
Police	150	
TBD	300	
Subtotal	600	6%
Follow-up	300	
Audit Projects		
Carry forward	400	
Audit committee	150	
State reporting	40	
Audit plan	100	
Special projects	435	
Subtotal	1,425	13%
Total	11,065	100%

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION

(Part 2 of 3 - Compliance)

FY 2007 Budgeted Expenditures: \$164,613,006

17.2 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

FY 2007 Audit Plan - Compliance Project	Budgeted Hours	% of Total
System-wide Office		
Strategic planning	220	
Non-compliance investigations	120	
Website maintenance	200	
System-wide peer review	140	
Employee development	72	
General SW office efforts	120	
Subtotal	872	14%
Training/Defining Expectations		
Emerging issues communication	214	
Institutional Compliance Advisory Council (ICAC)	490	
System-wide compliance training	160	
High risk area engagement and facilitation	1,000	
Spring compliance conference	1,000	
Non-UT conference support	40	
Subtotal	2,904	46%
Oversight		
Liaison support	1,000	
Peer reviews and peer review follow-up	300	
General compliance oversight	480	
Subtotal	1,780	28%
Reporting		
ACMR Quarterly/Annual activity reporting	140	
BOR Communication	64	
Chancellor communication (ECC)	84	
Subtotal	288	5%
Special Projects		
System Administration training committee	96	
Other special projects	240	
Subtotal	336	5%
Promote & Contribute		
National conference presentations	60	
University Compliance Group & OCEG participation	16	
Non-UT System institutional support	44	
Subtotal	120	2%
Total Hours	6,300	100%

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION

(Part 3 of 3 - Oversight)

FY 2007 Budgeted Expenditures: \$164,613,006

17.2 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

FY 2007 Audit Plan - Oversight	Budgeted	%
Audit/Project	Hours	of Total
UT System Requested		
<i>Audits</i>		
Guidance/Assistance Provided to the Institutions related to the System-wide Financial Audit	400	
Assistance to UT Permian Basin	200	
Assistance to Health Center - Tyler	350	
<i>Consulting</i>		
<i>Special Requests</i>		
<i>Carryforward</i>		
Subtotal	950	17%
Externally Required		
<i>Audits</i>		
NCAA Audits at UT Arlington, UT El Paso, UT San Antonio, and UT Pan American	1200	
<i>Consulting</i>		
<i>Special Requests</i>		
<i>Carryforward</i>		
Subtotal	1200	21%
Risk-based Institutional Audits		
<i>Audits</i>		
IT Audits - UTHC - Tyler	250	
<i>Consulting</i>		
System-wide IT Consulting	100	
<i>Special Requests</i>		
<i>Carryforward</i>		
Subtotal	450	8%
Change in Management		
<i>Audits</i>		
<i>Consulting</i>		
<i>Special Requests</i>		
<i>Carryforward</i>		
Subtotal	200	4%
Follow-up		
<i>Audits</i>		
<i>Consulting</i>		

<i>Special Requests</i>		
<i>Carryforward</i>		
Subtotal	0	0%
Audit Projects		
<i>Reporting</i>		
2008 System-wide Audit Plan	100	
Audit, Compliance, and Management Review Committee ("ACMR")	300	
Recommendation Tracking System (Red, Yellow, Green)	300	
Internal Audit Council	200	
<i>In the News</i> - Newsletter	150	
<i>Consulting</i>		
Institutions	1300	
<i>Special Requests</i>		
Institutional Peer Reviews	100	
Unknown	300	
<i>Carryforward</i>		
2007 Audit Plan	47	
Subtotal	2797	50%
Total Hours	5597	100%

THE UNIVERSITY OF TEXAS AT AUSTIN

FY 2007 Budgeted Expenditures: \$1,759,501,635
15 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
<i>Audits</i>		
Protecting the Confidentiality of SSNs, BPM 66-01-06	750	
Protecting Electronic Research Data, BPM 75	500	
Payment Card Industry Data Security Standards	500	
Presidential Travel and Entertainment	200	
Time and Effort Reporting, Progress on Implementing BPM 76-07-06: Guidance of Effort Reporting Policies	400	
<i>UT System Requested Carryforward</i>		
Financial Statement Audit (Deloitte), for FY '06	500	
Subtotal	2850	19%
<i>Externally Required</i>		
<i>Audits</i>		
NACHA	150	
NCAA Football Attendance	100	
<i>Carryforward</i>		
Joint Admission Medical Program (FY '05, '06)	150	
Subtotal	400	3%
<i>Risk Based: Institutional</i>		
Human Resources	600	
Environmental Health & Safety	400	
<i>Carryforward</i>		
University Relations and Alumni Affairs		
Frank Erwin Center	500	
Auxiliary and Service Departments		
NCAA Compliance - recruiting	50	
NCAA Compliance - financial aid	600	
Subtotal	2150	15%
<i>Risk Based: Auditable Area</i>		
<i>Research</i>		
Time and Effort Reporting, at the departmental level	375	

Information Technology		
SENF - testing security of sensitive information at the departmental level	300	
BPM 53 - General IT Controls	500	
Subtotal	1175	8%
Change in Management Allocation		
Change in Management Audits	2200	
Subtotal	2200	15%
Follow-up	800	5%
Projects		
Special Requests - Audits		
Carryforward		
Geological Sciences - Jackson School	50	
Audit Projects Subtotal	50	
Consulting Projects		
Special Requests - Consulting		
Indirect Cost - assist Office of Accounting	200	
ERM Process Sessions	3000	
Carryforward		
TXSHOP	150	
Austin Technology Incubator (ATI)	50	
Consulting Projects Subtotal	3400	
Other Projects		
Quality Assurance Review	250	
Quality Assurance Review, external (peer review)	450	
Internal Audit Committee	350	
Investigation - Carryforward, College of Education	200	
IA Tech Support	350	
State Auditor's Issues and Assistance	100	
Other Projects Subtotal	1700	
Projects Total	5150	35%
Total Hours	14725	100%

**THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER at
DALLAS**

FY 2007 Budgeted Expenditures: \$1,326,064,475
14 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
FY06 Financial Statement Audit	600	
FY07 Financial Statement Audit	200	
Compliance with Business Procedure Memorandum (BPM) 66-01-06: Protecting the Confidentiality of Social Security Numbers	250	
Implementation progress of BPM 76: Guidance on Effort Reporting Policies	300	
Compliance with the Payment Card Industry Data Security Standards	300	
Presidential Travel and Entertainment Expenses	200	
Institutional Compliance Operations Medical Center and University Hospitals	500	
Subtotal	2350	16%
<i>Externally Required</i>		
Joint Admission Medical Program (Biennial requirement)	200	
BPM 31-04-89: Policies and Procedures Regarding MSRDP/DSRDP/PRS Business Operations (if applicable)	200	
National Pediatric Infectious Disease Foundation AFR	200	
Family Practice Residency Program Grants (THECB requirement)	200	
Graduate Medical Education Grant (THECB requirement)	200	
ATP/ARP Grants (if applicable)	200	
TAC 202 Compliance Audit (Biennial requirement)	200	
Subtotal	1400	9%
<i>Risk Based: Institutional</i>		
Accounts Receivable/Cash Receipts	500	
Payroll	500	
Physical Plant Operations and Maintenance	0	
Subtotal	1000	7%
<i>Risk Based: Auditable Area</i>		
<i>Research</i>		
Research Grants Management	500	
Institutional Review Board	400	

Service Centers, Recharge Centers and Specialized Service Facilities	0
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Information Technology

Epic Implementation	500
Information System Interfaces	500
Security Controls for Electronic Research Data	400
Unauthorized Applications	400
Network Infrastructure	0

Patient Care

Affiliated Hospitals Contracts Review	400
St. Paul Emergency Room Operations	400
Patient Billing and Reimbursement	400
Medical Errors or Close Calls Evaluation and Correction Process	350
Hospital and Campus Pharmacy Operations	500
MSRDP Revenue Accounting	0

Consulting	300
Carryforward	100

Subtotal	5150	35%
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Change in Management Allocation

Internal Medicine	500
Pediatrics	200
Anesthesiology	200
Dermatology	200
Pharmacology	200
Radiation Oncology	200
Orthopedic Surgery	200
Otolaryngology - Head & Neck Surgery	0
Physical Medicine & Rehabilitation	0
Other	0
Change in Management Carryforward	0

Subtotal	1700	11%
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Follow-up	200	1%
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Projects

U. T. System Requests	200
Special Requests - Audits	200
Audit Projects Subtotal	400

Consulting Projects

A-133 Audit Support	100
Fraud Prevention and Analysis	200
LBB Performance Measures	200
Compliance Monitoring	150
Special Requests - Consulting	200

Consulting Projects Subtotal	850	
Other Projects		
Requests for Information/Assistance	100	
Annual Internal Audit Report	125	
Quality Assurance Review	100	
Training provided by IA	150	
Internal Audit Committee	200	
Investigations	400	
Reserve for other Special Requests	400	
Facilitated Risk Assessment	250	
FY 08 Audit Plan	80	
Other Projects Subtotal	1805	
Projects Total	3055	26%
Total Hours	14855	100%

THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON

FY 2007 Budgeted Expenditures: \$1,420,615,926
17 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
Deloitte & Touche - Financial Statement Audit	320	
BPM 66-01-06: Confidentiality of Social Security Number	320	
BPM 76-06-06: Guidance on Effort Reporting Policies Implementation	320	
Compliance with Payment Card Industry Data Security Standards	320	
Regent's Rule 20205: Presidential Travel and Entertainment Expenses	160	
BPM 75 - Protecting the Confidentiality of Digital Research Data	320	
<i>UT System Requested Carryforward</i>		
Un-sponsored Charity Care	20	
Subtotal	1,780	15%
<i>Externally Required</i>		
Joint Admissions Medical Program ("JAMP" Audit)	140	
Texas Higher Education Coordinating Board Audits :		
Family Practice Residency Program	140	
Primary Care/Internal Medicine Residency Program	140	
Graduate Medical Education ("GME")	140	
ATP/ARP Grants Program	140	
TAC 202 Compliance Audit - Administrative/Technical	320	
State Auditor's Office - A-133 Audit Follow-up	80	
Correctional Managed Care	500	
<i>Carryforward</i>		
BPM 31--04-89:MSRDP/DSRDP/PRS Business Operations	200	
Subtotal	1,800	15%
<i>Risk Based: Institutional</i>		
Construction Contract Audit	200	
Consulting - Institution-wide Risk Areas	80	
Subtotal	280	2%
<i>Risk Based: Auditable Area</i>		
<i>Research</i>		
Research Compliance Design Audit	560	
Consulting - Research Risk Areas	120	
<i>Carryforward</i>		
Conflict of Interest Audit	40	
Laboratory Safety/Security Audit	320	
<i>Information Technology</i>		
Information Security Audit(s)/Action Plan Monitoring	500	

PeopleSoft HCM - Post-Implementation Audit	320	
Third Party Access Controls Review	360	
Consulting	100	
<i>Carryforward</i>		
Active Directory	200	
Wireless Access	120	
Business Continuity Plan	120	
Decentralized Server Reviews / Sentigy	20	
Patient Care		
Medical Billing Compliance Design Audit	400	
Consulting - Patient Care Risk Areas	100	
<i>Carryforward</i>		
Managing Patient Information	20	
Subtotal	3,300	28%
Management Review		
<i>Change in Management Audits</i>	360	
<i>Management Review Carryforward</i>		
Office of the Executive Vice President	20	
Subtotal	380	3%
Follow-up Audits		
	600	5%
Projects		
<i>U. T. System Requests</i>	360	
<i>Special Requests - Audits</i>	360	
Audit Projects Subtotal	720	
Consulting Projects		
Special Requests - Consulting	120	
Consulting Projects Subtotal	120	
Other Projects		
Departmental Peer Review	360	
Quality Assurance Review	240	
Annual Risk Assessment/Work Plan Development	240	
Liaison with External Auditors	200	
On The Job Training	160	
TeamMate Implementation & Training	800	
Training provided by IA	120	
Internal Audit Committee	160	
Institutional Committee Attendance	240	
Investigations	300	
Other Projects Subtotal	2,820	
Projects Total	3,660	31%
Total Hours	11,800	100%

Prepared by: U. T. System Internal Audit Program
Consolidated by: U. T. System Audit Office
Date: September 2006

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THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON

FY 2007 Budgeted Expenditures: \$696,662,197
7 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
<i>Audits</i>		
External Financial Audit Statement Support FY 2006	300	
External Financial Audit Statement Support FY 2007	150	
Protecting Confidentiality of Social Security Numbers, Compliance with BPM 66-01-06	400	
Time and Effort Reporting, Implementation Progress of BPM 76-04-01	300	
Payment Card Data Security, Compliance with Industry Standards	200	
Presidential Travel and Entertainment Expenses	180	
Compliance Design - Research	110	
Compliance Design - Medical Billing	110	
<i>Consulting</i>		
Monitor implementation of BPM 75-04-06 Protecting the Confidentiality and Integrity of Digital Research Data	45	
Subtotal	1,795	18%
<i>Externally Required</i>		
<i>Audits</i>		
Medical School Practice Plan (MSRDP) Financial Review BPM 31-04-89	300	
Joint Admission Medical Program Financial Review	45	
Family Practice Residency Programs - Four Programs	140	
ARP/ATP Grants	190	
Compliance with Texas Administrative Code (TAC) 202	200	
Subtotal	875	9%
<i>Risk Based: Institutional</i>		
<i>Audits</i>		
Departmental Financial and Operational Controls	420	
Endowments	450	
<i>Carryforward</i>		
Indigent Care	100	
UT Medical Foundation	260	
Subtotal	1,230	12%

Risk Based: Auditable Area

Research

Financial Issues - Grants and Contracts Departmental Responsibilities 450

Information Technology

Delivery and Support - Windows Servers Vulnerability 500

Security - Windows Active Directory Structure 300

Carryforward

Application Controls Billing System (IDX) 250

Patient Care

Medical Billing Compliance 3,468

Carryforward

Billings and Collections 350

Medical School Charge Capture 200

Subtotal 5,518 55%

Change in Management Allocation

Change in Management Audits

Management Review Carryforward

Subtotal 0%

Follow-up 0%

Projects

U. T. System Requests

Special Requests - Audits

Audit Projects Subtotal 0

Consulting Projects

Special Requests - Consulting

Consulting Projects Subtotal 0

Other Projects

UT Physicians 80

Internal Audit Annual Report 30

Quality Assurance Review 170

Training provided by IA

Internal Audit Committee 180

Investigations

Reserve for other Special Requests

UT System Reporting 80

Other Projects Subtotal 540

Projects Total 540 5%

Total Hours 9,958 100%

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO

FY 2007 Budgeted Expenditures: \$536,000,229
6.5 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
Financial: External Audit of Financial Statements - 2006	350	
Financial: External Audit of Financial Statements - 2007	150	
IT: Protection of Social Security Numbers	260	
IT and Research: Protection of Digital Research Data	320	
Research: Effort Reporting	370	
Patient Care: Medical Billing Compliance Program	160	
Research: Research Compliance Program	310	
Financial: President Expenditures	210	
Financial: UT Medicine Financial Reporting	500	
IT: Payment Card Industry Data Security Standards	300	
Subtotal	2930	44%
<i>Externally Required</i>		
Financial: Practice Plans Financial Review/Receivables & Allowance	360	
Financial: Family Practice Residency Program	120	
Research: SAO FY 2006 A-133 Research and Development	200	
Financial: Joint Admission Medical Program	50	
Subtotal	730	11%
<i>Risk Based: Institutional</i>		
<i>Audits</i>		
Education and Financial: RAHC Funds Management		
<i>Consulting</i>		
	60	
<i>Carry forward</i>		
Education: Student Services Program Audit	60	
Research: Decentralized Grant Administration	30	
Subtotal	150	2%
<i>Risk Based: Auditable Area</i>		
<i>Patient Care</i>		
<i>Audits</i>		
Patient Care: Patient Scheduling & Registration		

Patient Care: MSRDP Charge Capture		
<i>Carry forward</i>		
Patient Care: MSRDP Charge Capture-Medicine & Pediatrics		320
<i>Information Technology</i>		
<i>Audits</i>		
IT: IT Infrastructure - Central Computing Facility		365
IT: IT Security - Risk Assessment Process		160
IT Planning & Organization: Manage IT Human Resources		
<i>Consulting</i>		
IT: PeopleSoft Human Capital Management (HCM) Upgrade		120
IT: Patient Billing System (EPIC) Implementation		180
<i>Carry forward</i>		
Planning & Organization: IT Planning and Financial Mgmt		30
<i>Consulting</i>		60
Subtotal		1235 18%
Change in Management		200 3%
Follow-up		320 5%
Projects		
U. T. System Requests	100	
IA Annual Report	40	
Special Requests - Audits	400	
Audit Projects Subtotal	540	
Other Projects		
Annual Audit Plan	150	
Training provided by IA	40	
Internal Audit Committee	60	
External Quality Assurance Follow-up	45	
Investigations	200	
Reserve for other Special Requests	100	
Other Projects Subtotal	595	
Projects Total		1135 17%
Total Hours		6700 100%

THE UNIVERSITY OF TEXAS M. D. ANDERSON CANCER CENTER

FY 2007 Budgeted Expenditures: \$2,338,606,878
14 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
External Financial Statement Audit - FY 2006 Year End & FY 2007	800	
Confidentiality of Social Security Numbers	200	
Effort Reporting	750	
Presidential Travel & Entertainment Expenses	250	
Payment Card Industry	Co-sourced	
Compliance Design Review of Research	300	
Compliance Design Review of Medical Billing	200	
Protection of Digital Research Data	200	
UT System Requested Subtotal	2700	20%
<i>Externally Required</i>		
Physicians Referral Service Financial Review	400	
Advanced Research Program/Advanced Technology Program	200	
Graduate Medical Education	200	
TAC 202	Co-sourced	
Externally Required Subtotal	800	6%
<i>Risk Based: Institutional</i>		
<i>Audits</i>		
Construction Project Management	50	
Payroll Services	650	
<i>Consulting</i>		
Enterprise-wide Risk Management	200	
Business Continuity Planning	200	
Human Resources Contingent Workforce	200	
Institutional "Spirit of Sarbanes-Oxley" Project	200	
Risk Based Institutional Subtotal	1500	11%
<i>Risk Based: Auditable Area</i>		
<i>Information Technology</i>		
<i>Audits</i>		
Social Security Audit	Co-sourced	
Application Security - Siemens Building Automation (Apogee and Staefa)	Co-sourced	
Application Security - Cirius	Co-sourced	

Problem and Incident Management	Co-sourced		
Project Management and System Development Life Cycle	Co-sourced		
System Development - CRIS	Co-sourced		
Post-Implementation Review of the PeopleSoft HR Upgrade	Co-sourced		
IT Asset Management	Co-sourced		
Disaster Recovery	Co-sourced		
<i>Other Projects</i>	Co-sourced		
Investigations	Co-sourced		
IT Liaison Activities	Co-sourced		
Follow-Up	Co-sourced		
Reserve for Just-in-Time Auditing/Advisory Services - TBA	Co-sourced		
Reserve for Just-in-Time Auditing/Advisory Services - TBA	Co-sourced		
Disaster Recovery	Co-sourced		
Risk Based: Information Technology Subtotal		0	
Patient Care			
<i>Audits</i>			
Pharmacy Inventory Review - Phase II		550	
Patient Safety "Close Call" Analysis		400	
Communication of High Risk Diagnoses		900	
Capture and Maintenance of Patient Financial and Demographic Information		500	
Outpatient Charge Capture Reconciliation Process		600	
<i>Consulting</i>			
Charge Capture		100	
Risk Based: Patient Care Subtotal		3050	
Research & Development			
<i>Audits</i>			
Maintenance and Security of Biological Research Materials		600	
Conflict of Interest		550	
<i>Consulting</i>			
Clinical Trial Research		900	
Risk Based: Research and Development Subtotal		2050	
Risk Based: Tier Two Subtotal		5100	37%
Change in Management Allocation			
<i>Change in Management Audits</i>		250	
Subtotal		250	2%
Follow-up		300	2%

Projects

U. T. System Requests

Reserve for Just-in-Time Auditing/Advisory Services - TBA 200

Special Requests - Audits

Reserve for Just-in-Time Auditing/Advisory Services - TBA 500

Audit Projects Subtotal 700

Other Projects

Investigations 300

Internal Audit Policies and Procedures Manual 400

Internal Audit Project Management Database 400

Internal Quality Assurance Activities 250

Institutional Risk Assessment and Work Plan Development 500

Liaison with External Auditors 60

Internal Assessment and External Peer Review 400

Other Projects Subtotal 2310

Projects Total 3010 22%

Total Hours 13660 100%

Appendix B ~ *Mid-Size Institutions*

U. T. Arlington
U. T. Brownsville
U. T. Dallas
U. T. El Paso
U. T. Pan American
U. T. San Antonio

THE UNIVERSITY OF TEXAS AT ARLINGTON

FY 2007 Budgeted Expenditures: \$330,033,399
6 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
Financial Statement Audit -- Fiscal Year 2006	400	
Financial Statement Audit -- Fiscal Year 2007	80	
Compliance with Business Procedure Memorandum (BPM) 66-01-06: Protecting the Confidentiality of Social Security Numbers	300	
Implementation Progress of BPM 76-07-06: Guidance on Effort Reporting Policies	220	
Compliance with Payment Card Industry Data Security Standards	300	
Presidential Travel & Entertainment Expense Audit	80	
Subtotal	1380	24%
<i>Externally Required</i>		
Joint Admission Medical Program "JAMP" (Biennial Requirement)	40	
Advanced Technology Program / Advanced Research Program (ATP/ARP) Grants	120	
Texas Administrative Code Section 202 (TAC 202) / Biennial Requirement	350	
NCAA Financial Audit	80	
NCAA Compliance Audit -- Recruiting	200	
SACS Financial Statement Review / Report	240	
Carryforward	20	
Subtotal	1050	18%
<i>Risk Based: Institutional</i>		
Follow Up Mav Express Cash Handling	80	
Carryforward	180	
Subtotal	260	5%
<i>Risk Based: Auditable Area</i>		
<i>Research</i>		
Animal Subjects Research Audit	320	
Grants and Contracts Audit	350	
Biosafety Audit	300	
<i>Information Technology</i>		
General Computer Controls -- Delivery and Support / Systems Security	280	
MyMav Student Information Systems Audit	320	

Carryforward		200	
<i>Development</i>			
Development Audit--Processes and Procedures		320	
Subtotal		2090	36%
<i>Change in Management Allocation</i>			
<i>Change in Management Audits</i>			
<i>Management Review Carryforward</i>			
Subtotal		0	0%
Follow-up		260	5%
<i>Audit Projects</i>			
U. T. System Requests	80		
FY 2008 Audit Plan Preparation	80		
Annual Internal Audit Report	40		
Audit Projects Subtotal	200		
<i>Consulting Projects</i>			
Special Requests - Consulting	80		
Consulting Projects Subtotal	80		
<i>Other Projects</i>			
Quality Assurance Review- Follow Up	40		
Internal Audit Committee	60		
Investigations	80		
Reserve for other Special Requests	250		
Other Projects Subtotal	430		
Projects Total		710	12%
Total Hours		5750	100%

THE UNIVERSITY OF TEXAS AT BROWNSVILLE

FY 2007 Budgeted Expenditures: \$126,752,338

4 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
<i>Audits</i>		
External Financial Audit Support (assist Deloitte & Touche)	270	
Protecting the Confidentiality of SSNs	150	
Protecting the Confidentiality and Integrity of Digital Research Data	80	
Time & Effort Reporting	150	
Presidential Travel and Entertainment Expenses	140	
Subtotal	790	22%
<i>Externally Required</i>		
Joint Admission Medical Program	40	
TAC 202 Compliance Audit	300	
Subtotal	340	9%
<i>Risk Based: Institutional</i>		
Key Operations	240	
Audit of Student Health Services	210	
Student Fees	260	
<i>Carryforward</i>		
Compliance: Contracts & Grants--Allowable Cost, Time & Effort, Reporting	60	
Compliance Inspection FU-Police Parking Permits and Tickets	80	
Subtotal	850	23%
<i>Risk Based: Auditable Area</i>		
<i>Information Technology</i>		
Security Review of Newly Acquired Systems(BPM 53)	100	
TAC 202 (see Externally Required--above)		
Subtotal	100	3%
<i>Change in Management Allocation</i>		
<i>Change in Management Audits</i>		
Institutional Advancement Division-N&I, Publications, Development	300	
Other	200	
Subtotal	500	14%

Follow-up		100	3%
Projects			
U. T. System Requests	48		
Travel and Entertainment Expenditures for all Vice Presidents	200		
SACS-Faculty Credentials	60		
Special Requests - Audits	180		
Audit Projects Subtotal	488		
Consulting Projects			
Special Requests - Consulting	50		
Consulting Projects Subtotal	50		
Other Projects			
Quality Assurance Review	80		
Training provided by IA	80		
Internal Audit Committee/IA Council	80		
Internal Audit Annual Plan-SAO	20		
Annual Audit Plan	90		
ERM Implementation	80		
Other Projects Subtotal	430		
Projects Total		968	27%
Total Hours		3648	100%

THE UNIVERSITY OF TEXAS AT DALLAS

FY 2007 Budgeted Expenditures: \$260,776,368
4.5 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
Deloitte Financial Audit Work	400	
Presidential Travel and Entertainment Expenses - Regents Rule 20205	140	
SSN Protection	60	
Time and Effort Reporting	100	
Subtotal	700	14%
<i>Externally Required</i>		
Assistance to Outside Auditors - Financial Audit FY 2007	60	
Assistance to Outside Auditors - Statewide Federal Audit JAMP (Joint Admissions Medical Program)	25	
	40	
Lena Callier Trust	80	
<i>Carryforward (TETC Audit)</i>	30	
Subtotal	235	5%
<i>Internally Requested</i>		
SACS - Review of Faculty Credentials	100	
Subtotal	100	2%
<i>Consulting</i>		
Audit Issues - Consulting/Meetings	50	
Compliance Consulting/Meetings	50	
Information Technology Consulting/Meetings	100	
Financial Consulting and Meetings	50	
Subtotal	250	5%
<i>Risk-based: Compliance Audits</i>		
Environmental Health and Safety (EH & S)	240	
Emergency Operations Plan	80	
Purchasing Cards	100	
SEVIS (Student and Exchange Visitor Information System)		
Subtotal	420	8%
<i>Risk-based: Information Technology Audits</i>		
BPM 75-04-06 (Protecting the Confidentiality and Integrity of Digital Research Data)	60	

Security over Laptops and Other Portable Devices	120	
Comet Cards	120	
Callier - new system	200	
Authentication and Computer Account Requests	180	
Unix		
Breeze Implementation Meetings	50	
Subtotal	730	14%

Risk-based: Academic Institutional Processes

Financial Statement Certifications	100	
Scholarships & Fellowships	220	
Gifts	220	
Cash Handling	160	
Contracts & Grants	160	
Engineering and Science Research Enhancement Initiative (Project Emmitt)	220	
<i>Carryforward (in process at 8/31/06)</i>		
Human Resources Control Self-Assessment Workshops	60	
Subtotal	1,140	22%

Institutional and Risk-based Subtotal **2,640**

Change in Management Audits

Dean of Natural Sciences and Mathematics	100	
Facilities Management	200	
VP Business Affairs	60	
Information Resources	120	
Callier Center	120	
Associate VP for Budget	60	
Reserved for Change in Management Audits During the Year		
<i>Carryforward</i>		
VP Development	40	
Subtotal	700	14%

Follow-up Audits

Annual Follow-Up Audit	80	
Quarterly Follow-Up of Significant Recommendations	20	
Subtotal	100	2%

Projects

ACL Projects	80	
Annual Internal Audit Report	15	
Audit & Compliance Committee	50	
Enterprise Risk Management (ERM) Implementation	60	
External QAR	150	
FY 2008 Audit Plan	50	
Quality Assurance Reviews for Other Audit Departments		
Audit Committees, Etc	123	

SACS	40	
U. T. System Requests	25	
Website Updates and TeamMate Procedures	80	
Hotline Investigations	25	
Subtotal	698	14%
Total Audit Hours	5,073	100%

THE UNIVERSITY OF TEXAS AT EL PASO

FY 2007 Budgeted Expenditures: \$ 265,079,439
9 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
UT System Financial Statement Audit	400	
Compliance with (BPM) 66-01-06; Protecting the Confidentiality of SSNs	300	
Implementation of (BPM) 76-07-06; Guidance on Effort Rptg Policies	200	
Compliance with Payment Card Industry Data Security Standards	300	
President's Travel, Entertainment, and Housing	180	
<i>Consulting</i>	100	
Subtotal	1480	19%
<i>Externally Required</i>		
Joint Admission Medical Program (JAMP)	50	
TAC 202 Compliance Audit (Biennial)	300	
ATP/ARP Grants	200	
KTEP FM Radio Station	150	
NCAA Financial Audit & Attendance Audit	200	
Subtotal	900	11%
<i>Risk Based: Institutional</i>		
<i>Audits</i>		
Purchasing - Procurement Card	300	
Instruction and Academic support - Degree Productivity	300	
Plant Operations & Maintenance - Emergency Response Plans	300	
<i>Consulting</i>	100	
<i>Carryforward</i>		
Contracting Process/Operations and Bid Process	300	
Subtotal	1300	16%
<i>Risk Based: Auditable Area</i>		
<i>Research</i>		
<i>Audits</i>		
Contracts and Grants	300	
Protection of Research	300	

Consulting	100	
Carryforward		
Animal Research	350	
Information Technology		
Audits		
Systems and Infrastructure Security	300	
Consulting	100	
Carryforward		
Decentralized Server Security	270	
Subtotal	1720	22%
Change in Management Allocation		
<i>Change in Management Audits</i>		
Alumni Relations Office	100	
Office of Research and Sponsored Projects	150	
College of Business	100	
College of Science	100	
<i>Management Review Carry forward</i>		
Philosophy Dept	50	
Subtotal	500	6%
Follow-up	450	6%
Projects		
U. T. System Requests	100	
Special Requests - Audits	200	
Audit Projects Subtotal	300	
Consulting Projects		
Special Requests - Consulting	145	
Consulting Projects Subtotal	145	
Other Projects		
Year-end Inventory and Cash Counts	100	
Institutional Compliance Committee	20	
Quality Assurance Review Follow-up	50	
Training provided by IA	150	
Internal Audit Committee	100	
Investigations	400	
Annual Internal Audit Report	50	
Reserve for other Special Requests	250	
Other Projects Subtotal	1120	
Projects Total	1565	20%
Total Hours	7915	100%

Prepared by: U. T. System Internal Audit Program
Consolidated by: U. T. System Audit Office
Date: September 2006

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THE UNIVERSITY OF TEXAS AT PAN AMERICAN

FY 2007 Budgeted Expenditures: \$207,743,708

5 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
Presidential Travel and Entertainment Expenses	70	
Deloitte/System Financial Statement Audit	200	
Confidentiality of Social Security Numbers (BPM 66)	200	
Effort Reporting - Implementation Progress of BPM	125	
Compliance with Payment Card Data Security Standards	230	
Protection of Research Data - BPM 75	80	
Subtotal	905	20%
<i>Externally Required</i>		
Joint Admission Medical Program (JAMP)	40	
NCAA Agreed-Upon Procedures	200	
SACS Financial Review	150	
ARP/ATP Grants	100	
NCAA Compliance Playing and Practice Seasons	75	
<i>Carryforward</i>		
TAC 202	95	
Subtotal	660	15%
<i>Risk Based: Institutional</i>		
President's Initiative	200	
Payroll	250	
<i>Carryforward</i>		
Procurement Cards	5	
Subtotal	455	10%
<i>Risk Based: Auditable Area</i>		
<i>Research</i>		
Grants & Contracts - Cost Sharing	200	
<i>Information Technology - Consulting</i>		
Oracle Implementation Project - Phase II	75	
Banner Implementation Project	150	
Subtotal	425	10%
<i>Change in Management Allocation</i>		
<i>Change in Management Audits</i>		
Provost/VPBA	110	

Dean - College of Arts & Humanities	110	
Dean - College of Health Sciences & Human Services	110	
Vice President of Information Technology	110	
Director-Student Financial Aid	110	
Library Director	110	
<i>Carryforward</i>		
Dean- College of Science and Engineering	110	
Subtotal	770	17%
Follow-up	120	3%
Projects		
<i>U. T. System Requests</i>	50	
<i>Special Requests - Audits</i>	200	
Audit Projects Subtotal	250	
Consulting Projects		
Special Requests - Consulting	50	
Consulting Projects Subtotal	50	
Other Projects		
Committee Meetings		
President's Council	40	
Information Technology Planning Council (ITPC)	25	
Internal Audit Committee	85	
Institutional Compliance Committee	30	
Athletic Council & Compliance Committee	20	
SACS Committee	75	
System Audit Council	30	
External Auditors	25	
Quality Assurance Review	125	
Training provided by IA	0	
Investigations	0	
Reserve for other Special Requests	0	
Annual Audit Plan	125	
Misc. Audits & Projects	250	
Other Projects Subtotal	830	
Projects Total	1130	25%
Total Hours	4465	100%

THE UNIVERSITY OF TEXAS AT SAN ANTONIO

FY 2007 Budgeted Expenditures: \$334,472,454
6.25 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
FY2006 Deloitte External Financial Audit	200	
FY2007 Deloitte External Financial Audit	40	
Confidentiality of SSN and Sensitive Information	600	
Time and Effort Reporting - BPM 76	200	
FY 2006 Presidential Travel and Entertainment	300	
FY 2007 Presidential Travel and Entertainment	150	
Subtotal	1490	22%
<i>Externally Required</i>		
FY 2006 NCAA Annual Financial Audit	240	
FY 2007 NCAA Annual Financial Audit	40	
Advanced Technology/Research Programs (ATP/ARP)	30	
Joint Admission Medical Program (JAMP)	30	
State Auditors - Statewide Compliance Student Financial Aid Cluster	30	
NCAA Compliance Review	20	
Delivery and Support (TAC 202 Compliance including Network Security)	500	
Subtotal	890	13%
<i>Risk Based: Institutional</i>		
Carryforward:Campus Security - Overnight Summer Programs	50	
Carryforward:Library	100	
Subtotal	150	2%
<i>Risk Based: Auditable Area</i>		
<i>Research</i>		
Institutional Review Board (IRB)	600	
Research Financial - Post-award	600	
<i>Information Technology</i>		
Planning and Organization (IT Organization and Planning Controls)	500	
Subtotal	1700	25%
<i>Change in Management Allocation</i>		
<i>Change in Management Audits</i>		
<i>Management Review Carryforward</i>		
Subtotal	0	0%

Follow-up	300	4%
Projects		
<i>U. T. System Requests</i>	200	
<i>Special Requests - Audits</i>	250	
Audit Projects Subtotal	450	
Consulting Projects		
Special Requests - Consulting		
Consulting Projects Subtotal	0	
Other Projects		
External Quality Assurance Review Follow-up	59	
University Wide Risk Assessment	200	
Investigations	200	
Compliance Oversight	300	
Committee and Council Meetings	400	
Professional Associations	400	
Audit Plan Development	80	
Teammate Maintenance	100	
Methodware Implementation	200	
Other Projects Subtotal	1939	
Projects Total	2389	35%
Total Hours	6919	100%

Appendix C ~ *Small Institutions*

U. T. Permian Basin

U. T. Tyler

U. T. Health Center - Tyler

THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN

FY 2007 Budgeted Expenditures: \$40,294,836

1 Budgeted Audit Position

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
System-wide Financial Audit (assist Deloitte & Touche)	120	
Presidential Expense Audit	60	
Effort Reporting	80	
Confidentiality of Social Security Numbers	40	
Confidentiality and Integrity of Digital Research	40	
Subtotal	340	28%
<i>Externally Required</i>		
Joint Admissions Medical Program (JAMP)	40	
TAC 202	120	
NCAA	120	
Assistance to SAO	25	
Subtotal	305	25%
<i>Risk Based: Institutional</i>		
Vacation and Sick Leave	80	
Student Housing	120	
Consulting	40	
Subtotal	240	20%
<i>Risk Based: Auditable Area</i>		
<i>Research</i>		
<i>Information Technology</i>		
Subtotal	0	0%
<i>Change in Management Allocation</i>		
<i>Change in Management Audits</i>		
V. P. Student Services	40	
School of Business	40	
Admissions	40	
Continuing Education	50	
Physical Plant	50	
<i>Management Review Carryforward</i>		
School of Education	10	
Subtotal	230	19%

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 Date: September 2006

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Follow-up	57	5%
Projects		
<i>U. T. System Requests</i>	20	
<i>Special Requests - Audits</i>		
Audit Projects Subtotal	0	
Consulting Projects		
Special Requests - Consulting	20	
Consulting Projects Subtotal	0	
Other Projects		
Quality Assurance Review		
Training provided by IA		
Internal Audit Committee		
Investigations		
Reserve for other Special Requests		
Other Projects Subtotal	0	
Projects Total	40	3%
Total Hours	1212	100%

THE UNIVERSITY OF TEXAS AT TYLER

FY 2007 Budgeted Expenditures: \$66,066,882
2.5 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
Financial Audit - Deloitte	250	
Regents' Rule 20205 - Presidential Travel and Entertainment	80	
Social Security Number Protection BPM 66-01-06	120	
Time And Effort Reporting Principles	60	
Confidentiality and Integrity of Digital Research Data BPM 75-04-06	60	
Subtotal	570	24%
<i>Externally Required</i>		
Grant Requests - required by grantor:		
Gear-up	60	
JAMP	40	
<i>Carryforward</i>		
TAC 202 Compliance Audit - completion	40	
Subtotal	140	6%
<i>Risk Based: Institutional Processes</i>		
Construction Management-Local Projects	120	
Campus Safety and Security	0	
<i>Consulting</i>		
Strategic Planning Process	40	
Business Continuity Plan	60	
Subtotal	220	9%
<i>Risk Based: Auditable Area</i>		
<i>Student Services:</i>		
Financial Aid	100	
Health Clinic	100	
<i>Instruction and Academic Support:</i>		
Course Availability and Scheduling	100	
Program Development	0	
Faculty Tenure and Productivity	120	
<i>Information Technology:</i>		
Academic Local Area Networks	80	
Information Technology Consulting/Meetings	40	
General Security Controls	80	

Subtotal		620	26%
Change in Management Allocation			
Dean of Engineering		72	
Dean of Liberal Arts		80	
Associate Provost		60	
Director of Environmental Health and Safety		40	
Executive Director of University Advancement		60	
Reserve for Other Change in Management Reviews		0	
Subtotal		312	13%
Follow up Audits			
Follow-up of FY 2006 Audits		40	
Significant Recommendation Tracking		20	
Subtotal		60	3%
Consulting Projects			
Reserve for Special Projects and Investigations as requested by the President and/or Audit Committee	100		
Risk Assessment Consultation	40		
Compliance Sub-committee meetings	40		
Subtotal	180		
Other Projects			
Quality Assurance Review-internal follow-up	40		
Training provided by IA	16		
Internal Audit Committee-Quarterly	60		
Compliance Working Group - Monthly	13		
2006 Annual Audit Report - SAO	20		
Investigations/Ethics Line	40		
2007-2008 Audit Plan	50		
Website Development	0		
UT System Requests - Information and misc reports	35		
Subtotal	274		
Projects Total		454	19%
Total Priority Hours		2376	100%

THE UNIVERSITY OF TEXAS HEALTH CENTER AT TYLER

FY 2007 Budgeted Expenditures: \$119,888,145
2 Budgeted Audit Positions

Fiscal Year 2007 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
Annual Financial Report Audit FY 2006	350	
Effort Reporting Compliance Audit	150	
Presidential Travel and Entertainment Expenses Audit	200	
Medical Billing Compliance Audit	150	
Subtotal	850	50%
<i>Externally Required</i>		
Medical Services, Research and Development Plan AFR Audit FYE 08/31/2006	200	
Family Practice Residency Program and Graduate Medical Education Program Grants AFR Audit 08/31/2006	130	
Subtotal	330	19%
<i>Risk Based: Institutional</i>		
Subtotal	0	0%
<i>Risk Based: Auditable Area</i>		
<i>Research</i>		
<i>Information Technology</i>		
<i>Patient Care</i>		
Subtotal	0	0%
<i>Change in Management Allocation</i>		
Change in Management Audits	160	
Management Review Carryforward		
Subtotal	160	9%
Follow-up	100	6%
<i>Projects</i>		
<i>U. T. System Requests</i>		
<i>Special Requests - Audits</i>		
Audit Projects Subtotal	0	

Consulting Projects

Special Requests - Consulting

Consulting Projects Subtotal **0**

Other Projects

Quality Assurance Review 32

Training provided by IA 20

Internal Audit Committee 50

Annual Audit Plan and Report 120

Facilitate Implementation of Enterprise Risk Management 40

Other Projects Subtotal **262**

Projects Total **262** **15%**

Total Hours **1702** **100%**

**A Status Report on
Community College Student Transfers at
The University of Texas System Academic Institutions**

**The University of Texas System
Office of Academic Affairs
July 2006**

Author: Roberta Rincon, Research and Policy Analyst

Policymakers are currently focusing attention on the role of community colleges in assisting higher education students on their path to obtain a baccalaureate degree. Most recently, the 79th Legislature requested that the Texas Higher Education Coordinating Board complete a feasibility study by October 2006 regarding the automatic admission of certain associate's degree and certificate holders. In July 2006, the Coordinating Board staff presented to its Board a draft report entitled *A Study Regarding the Feasibility of Implementing an Automatic Admission Policy for Transferring Undergraduate Students Who Meet Certain Qualifications*. The report pointed out the low number of community college students statewide that apply for transfer into a public university within the first year after receiving their degree. Data show that students graduating with an academic associate degree in Texas have over a 100 percent acceptance rate into public universities (indicating acceptance to multiple universities), and the percentage of these students that enroll is above 80 percent. However, only about 25 percent of students that receive an academic associate degree – whose purpose is primarily to prepare a student to transfer into a university – actually apply for transfer immediately upon receiving their degree. The transfer rate to four-year universities by students receiving technical associate degrees, completing the core curriculum, or completing 30 or more semester credit hours at a community college is less than 10 percent.

Low transfer rates from community colleges to universities are a national issue. According to a recent report published by the National Center for Educational Statistics, only 36 percent of community college students plan to transfer to a four-year institution.¹ Because of their success in graduating from state public universities in a timely fashion, community college students are considered an “untapped” source of students in the state’s goals to “Close the Gaps.”

To understand the existing and potential relationship between community colleges and The University of Texas System academic institutions, the following questions are examined:

- (1) What transfer articulation agreements exist between community colleges and UT System academic institutions?
- (2) What transfer admission requirements exist at UT System academic institutions?
- (3) What residency requirements exist at UT System academic institutions for students interested in graduating with a UT System degree?
- (4) How prepared are community college transfer students, in terms of level of classification?
- (5) What are the transfer trends of community college students entering UT System academic institutions?
- (6) What are the graduation rates of community college transfer students compared to traditional university students?

The answers to these questions can help the UT System determine the steps necessary to improve the transfer rates of community college students into UT System academic institutions. It is imperative that UT System increase community college transfer rates as these students are less likely to require remediation and have proven their commitment to completing their degrees.

¹ Horn, L., and Nevill, S. (2006). *Profile of Undergraduates in U.S. Postsecondary Education Institutions: 2003–04: With a Special Analysis of Community College Students* (NCES 2006-184). U.S. Department of Education. Washington, DC: National Center for Education Statistics.

What transfer articulation agreements exist between community colleges and UT System academic institutions?

There are a number of articulation agreements in place between various UT System academic institutions and regional community colleges. The ease with which a community college student can access specific course transfer information on the university's website varies from institution to institution (Table 1).

Table 1: Articulation Agreements and Transfer Guide Availability

Institution	Transfer Guides on Web	Community College Articulation Agreements	
UT Arlington	Yes	* Austin Community College * Blinn College * Central Texas College * College of the Mainland * Collin County Community College * Dallas County Community College * Grayson County College * Hill College * Howard College	* Laredo Community College * McLennan Community College * Navarro College * Tarrant County College * Temple College * Texas State Technical College - Harlingen * Tyler Junior College * Vernon College * Weatherford College
UT Austin	Yes	Austin Community College	
UT Brownsville	No	South Texas College	
UT Dallas	Yes	* Austin Community College * Collin County Community College	* Dallas County Community College
UT El Paso	No	El Paso Community College	
UT Pan American	Yes	South Texas College	
UT Permian Basin	No	* Howard College * Midland College	* New Mexico Junior College * Odessa College
UT San Antonio	Yes	* Austin Community College * Coastal Bend College * Del Mar College * Laredo Community College * Northwest Vista College * Palo Alto College	* San Antonio College * South Texas College * Southwest Texas Junior College * St. Philip's College * Victoria College
UT Tyler	No	* Kilgore College * Panola College * Trinity Valley Community College * Tyler Junior College * Jacksonville College	* Lon Morris College * Navarro College * Paris Junior College * Northeast Texas Community College * Dallas County College District

Source: The University of Texas Academic Institution websites and Offices of Academic Affairs

What transfer admission requirements exist at UT System academic institutions?

Each UT System academic institution has its own requirements for consideration of a student's application for transfer (Tables 2 and 2a).

Table 2: Transfer Admission Requirements

Institution	Transfer Requirements
UT Arlington	<p><u>Less than 30 transferable SCH:</u> * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 2a) * Minimum 2.25 GPA on all previous college work * Students with at least a 2.00 but less than 2.25 GPA are considered on a space available basis</p> <p><u>30 or more transferable SCH:</u> * Transfers with a 2.25 overall GPA are, generally, admissible to the university * Students with at least a 2.00 but less than 2.25 GPA are considered on a space available basis</p>
UT Austin	<p>* Graduation from high school or earned GED * Must have at least 24 transferable SCH (30 SCH after Summer 2007) * Holistic review</p>
UT Brownsville	Submission of official transcripts
UT Dallas	<p><u>Freshmen or sophomore applicants:</u> * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 2a) * Freshmen must have at least a 3.00 GPA; Sophomores must have at least a 2.50 GPA</p> <p><u>Junior and senior applicants</u> * Automatically admitted if GPA is 2.50 or better</p>
UT El Paso	<p><u>Less than 12 SCH completed:</u> * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 2a) * Minimum 2.00 GPA on all previous college work</p> <p><u>12 or more SCH completed</u> * Minimum 2.00 GPA on all previous college work</p>
UT Pan American	<p><u>Less than 30 SCH completed:</u> * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 2a) * Minimum 2.00 GPA on all previous college work</p> <p><u>30 or more SCH completed</u> * Minimum 2.00 GPA on all previous college work</p>
UT Permian Basin	<p><u>Less than 24 SCH completed:</u> * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 2a)</p> <p><u>24 or more transferable SCH</u> * Minimum 2.00 GPA on all previous college work * Be eligible to re-enroll in the colleges previously attended * Possible provisional admission for students that do not meet the minimum GPA requirement</p>
UT San Antonio	<p><u>Less than 30 SCH completed:</u> * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 2a) * Minimum 2.00 GPA on all previous college work * Be eligible to return to all previous institutions attended</p> <p><u>30 or more transferable SCH</u> * Minimum 2.00 GPA on all previous college work * Be eligible to return to all previous institutions attended</p>
UT Tyler	<p><u>Less than 30 SCH completed:</u> * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 2a)</p> <p><u>30 or more transferable SCH from a regionally accredited institution</u> * Minimum 2.00 GPA on all previous college work</p>

Source: The University of Texas System academic institution websites

Table 2a: Freshman Admission Requirements

	High School Rank	SAT Score	ACT Score	SAT/ACT Required
UT Arlington	Top Quarter	Guaranteed Admission		Yes
	Second Quarter	1050	22	
	Third Quarter	1150	25	
	Fourth Quarter	Individual Review		
UT Austin	Top 10%	Guaranteed Admission		Yes
	Non-top 10%	Holistic Review		
UT Brownsville	Open Door Admission Policy			No
UT Dallas	Top 10%	Guaranteed Admission		Yes
	Non-top 10%	Holistic Review		
UT El Paso	Top 50%	Guaranteed Admission		Yes
	Bottom 50%	920	20	
UT Pan American	Top 10%	Guaranteed Admission		Yes
	Non-top 10%	710	15	
UT Permian Basin	Top Quarter	Guaranteed Admission		Only if below top 10%
	Second Quarter	830	18	
	Third Quarter	920	19	
	Fourth Quarter	1100	24	
UT San Antonio	Top 10%	Guaranteed Admission		Yes
	Top Quarter	830	17	
	Second Quarter	870	18	
	Third Quarter	920	19	
	Fourth Quarter	970	20	
UT Tyler	Top 10%	Guaranteed Admission		Yes
	Top Quarter	950	20	
	Second Quarter	1000	21	
	Third Quarter	1050	22	
	Fourth Quarter	1100	23	

Source: The University of Texas System academic institution websites

What residency requirements exist at UT System institutions for students interested in graduating with a degree from these campuses?

One of the key prerequisites in obtaining an undergraduate degree from a UT System institution is meeting the residency requirement. Regardless of how many credit hours a student may transfer in with, most institutions require that a student complete a certain amount of coursework at the university awarding the baccalaureate degree (Table 3). Students planning to transfer to a UT System academic institution must keep these expectations in mind as it may increase the time to degree if coursework must be repeated to satisfy the minimum residency standards.

Table 3: Residency Requirements to Graduate with a Baccalaureate Degree

Institution	# of Semester Credit Hours (SCH) Required in Residence
UT Arlington	* 25 percent of total SCH required for degree (minimum 30 SCH, may vary for certain colleges) * At least 18 SCH of advanced coursework, to include 12 SCH in the major
UT Austin	* 60 SCH * At least 6 SCH of advanced coursework in the major * 24 of the last 30 SCH
UT Brownsville	* 30 SCH * At least 15 SCH of advanced coursework in major * 24 of the last 30 SCH
UT Dallas	* 25 percent of total SCH required for degree (minimum 30 SCH) * 50 percent of total SCH required for degree from the School of Management * 24 of the last 30 SCH
UT El Paso	* 25 percent of total SCH (minimum 30 SCH) * 24 of the last 30 SCH
UT Pan American	* 25 percent of total SCH required for degree (minimum 30 SCH) * At least 6 SCH of advanced coursework in the major * 24 of the last 30 SCH
UT Permian Basin	* 25 percent of total SCH (minimum 30 SCH) * At least 6 SCH of advanced coursework in the major * 24 of the last 30 SCH
UT San Antonio	* 25 percent of total SCH (minimum 30 SCH) * At least 18 SCH of advanced coursework, to include 6 SCH in the major * 24 of the last 30 SCH
UT Tyler	* At least 6 SCH of advanced coursework in the major * 24 of the last 30 SCH

Source: The University of Texas Academic Institution Current Undergraduate Catalogs

How prepared are community college transfer students, in terms of level of classification?

The majority of transfer students into UT System academic institutions are freshmen and sophomores (Table 4). UT Dallas is the exception, having a large number of junior-level students entering the university. UT Tyler saw a large decrease in the number of junior-level transfers and a corresponding increase in freshman and sophomore transfers from 2000 to 2005 due to its expansion from an upper-level institution to a four-year university.

Table 4: Undergraduate Transfer Enrollment, by Classification

		2000	2001	2002	2003	2004	2005
UT Arlington	Freshman	17.3%	15.0%	18.2%	15.7%	12.1%	12.6%
	Sophomore	36.6	38.2	36.1	36.9	40.7	38.8
	Junior	26.6	29.2	29.4	31.7	31.5	33.3
	Senior	8.8	9.0	9.8	10.5	10.1	10.9
UT Austin	Freshman	11.1	8.2	9.1	6.7	4.3	6.7
	Sophomore	45.7	45.0	51.2	54.7	68.4	59.7
	Junior	32.7	37.7	33.4	33.6	24.6	29.0
	Senior	10.5	9.1	6.4	5.0	2.8	4.6
UT Brownsville/TSC*	Freshman	67.9	68.6	56.4	54.3	67.3	56.7
	Sophomore	20.2	24.0	28.7	25.4	21.7	30.5
	Junior	0.9	2.0	3.7	4.1	2.1	4.9
	Senior	4.1	1.0	4.1	3.4	0.3	0.9
UT Dallas	Freshman	5.7	6.5	5.8	5.8	5.1	4.6
	Sophomore	25.4	27.7	29.5	28.7	29.8	29.4
	Junior	53.3	50.8	52.9	54.2	52.4	53.4
	Senior	13.2	11.1	9.6	7.7	9.9	8.5
UT El Paso	Freshman	33.3	33.5	29.4	27.7	25.9	21.9
	Sophomore	30.4	30.9	35.4	36.6	36.0	36.6
	Junior	30.0	28.4	28.5	30.1	31.4	36.3
	Senior	6.3	7.3	6.7	5.6	6.7	5.2
UT Pan American	Freshman	24.6	24.8	25.7	22.5	21.8	18.8
	Sophomore	28.3	29.5	26.5	27.2	29.1	31.3
	Junior	29.1	28.5	31.4	36.4	37.6	41.7
	Senior	11.1	10.0	10.9	8.3	8.3	4.6
UT Permian Basin	Freshman	8.5	10.1	14.3	15.5	14.8	13.6
	Sophomore	43.5	41.1	46.2	44.2	50.3	43.6
	Junior	28.1	28.8	24.7	26.0	26.8	37.1
	Senior	2.2	2.2	2.2	2.2	1.0	4.3
UT San Antonio	Freshman	30.6	33.2	16.4	16.9	16.1	12.1
	Sophomore	33.6	31.8	37.9	40.5	39.8	40.8
	Junior	23.8	24.6	33.1	31.2	33.7	37.5
	Senior	12.0	10.4	12.4	11.3	10.3	9.6
UT Tyler	Freshman	1.1	1.4	4.1	8.0	7.9	7.1
	Sophomore	1.1	0.0	28.9	33.7	30.6	30.7
	Junior	87.5	88.6	50.9	46.2	44.6	45.0
	Senior	4.0	0.5	7.6	5.6	10.6	10.1

*Figures for Brownsville/Texas Southmost represent unduplicated enrollment information and exclude internal transfers.

Figures do not add to 100 percent due to the exclusion of post-baccalaureate transfer students and TSC's "unclassified" transfer students.

Source: The University of Texas System Statistical Handbook 2006

An important point made in the Coordinating Board's draft report, *A Study Regarding the Feasibility of Implementing an Automatic Admission Policy for Transferring Undergraduate Students Who Meet Certain Qualifications*, is that grade point average does not appear to play a major role in the admission of community college transfer students into public universities in Texas. For those students with academic associate degrees and students that complete the core curriculum, the percentage of students that are accepted does not vary much depending on GPA. In fact, students with GPAs between 2.0 and 2.9 tend to enroll at public universities at slightly higher rates than those students who transfer with a GPA between 3.0 and 4.0. This is also the case for students that transfer in with more than 30 semester credit hours, but no degree or certificate.

What are the transfer trends of community college students entering UT System institutions?

According to information provided by the Texas Higher Education Coordinating Board, transfer enrollments from community colleges are going up at most UT System institutions (Table 5).

Table 5: Fall Community College Transfer Enrollment, by Institution

	2000	2001	2002	2003	2004	2005
UT Arlington	1,502	1,628	1,832	1,871	2,149	2,191
UT Austin*	942	977	867	519	413	545
UT Brownsville/TSC**	126	114	136	161	222	224
UT Dallas	732	890	915	1,031	989	939
UT El Paso	517	613	603	637	772	811
UT Pan American	692	772	867	1,039	1,012	624
UT Permian Basin	232	264	263	331	265	263
UT San Antonio	1,533	1,761	1,550	1,360	1,469	1,425
UT Tyler	784	451	536	637	717	722
TOTAL	7,060	7,470	7,569	7,586	8,008	7,744

* UT Austin is operating under enrollment management criteria which limit the number of transfer students that it can enroll.

** Figures for Brownsville/Texas Southmost represent unduplicated enrollment information and exclude internal transfers. Internal transfers are students starting at TSC and continuing in UTB courses. In fall 2005, there were 567 of these internal transfers.

Source: The University of Texas System Statistical Handbook 2006

On the whole, as a percentage of total undergraduate enrollment, transfer enrollments from Texas community colleges have remained relatively unchanged or have decreased over the last six years (Table 6). This is also seen at many institutions when studying the number of transfer enrollments as a percentage of new students (transfers and first-time undergraduates) entering each UT academic institution each year (Table 7). A high was reached in 2004, when most institutions saw the largest number of total transfer student enrollments.

A look at specific institutions shows that UT Arlington and UT El Paso have seen significant growth in the number of total students transferring into the university as well as those transferring from community colleges. In general, transfer students from community colleges make up roughly 60-75 percent of all transfer students into UT System academic institutions. UT Austin is an exception in this study because it operates under enrollment management criteria that limit the number of transfer students it can enroll.

Table 6: Fall Undergraduate Transfer Enrollment from Texas Junior Colleges as a Percentage of Total Undergraduate Enrollment, by Institution

	2000	2001	2002	2003	2004	2005
UT Arlington	9.7%	10.0%	10.4%	9.9%	11.2%	11.3%
UT Austin*	2.5	2.5	2.2	1.4	1.1	1.5
UT Brownsville/TSC**	1.5	1.3	1.5	1.7	2.1	1.8
UT Dallas	9.4	9.9	9.6	10.8	10.1	9.3
UT El Paso	4.0	4.5	4.2	4.2	4.9	5.0
UT Pan American	6.2	6.4	6.9	7.5	6.8	4.2
UT Permian Basin	11.7	12.7	11.5	12.5	9.1	9.0
UT San Antonio	9.2	10.0	8.1	6.4	6.5	6.0
UT Tyler	27.1	15.0	15.7	16.2	16.1	14.6

* UT Austin is operating under enrollment management criteria which limit the number of transfer students that it can enroll.

** Figures for Brownsville/Texas Southmost represent unduplicated enrollment information and exclude internal transfers. Internal transfers are students starting at TSC and continuing in UTB courses. In fall 2005, there were 567 of these internal transfers.

Source: The University of Texas System Statistical Handbook 2006

Table 7: Fall Undergraduate Transfer Enrollment from Texas Junior Colleges as a Percentage of Total New Undergraduate Enrollment*, by Institution

Summer/Fall	2000	2001	2002	2003	2004	2005
UT Arlington	34.6%	34.5%	34.8%	33.6%	40.0%	41.3%
UT Austin	9.6	10.4	8.7	6.4	4.7	6.3
UT Dallas	35.9	37.0	40.5	40.4	39.1	38.1
UT El Paso	17.2	18.2	17.4	17.6	21.9	21.3
UT Pan American	22.5	23.4	25.2	25.6	24.3	19.2
UT Permian Basin	45.2	44.8	41.7	41.4	40.8	38.6
UT San Antonio	36.4	38.4	26.7	20.7	21.4	21.0
UT Tyler	63.4	50.8	49.7	48.6	47.1	45.8

* New Undergraduate Enrollment includes all transfer students and first-time undergraduate students

Notes: UT Austin is operating under enrollment management criteria which limit the number of transfer students that it can enroll.

UT Brownsville/TSC is not included because first-time undergraduates typically matriculate at Texas Southmost College.

Source: The University of Texas System Statistical Handbook 2006

What are the graduation rates of community college transfer students compared to traditional university students?

According to information provided by the Texas Higher Education Coordinating Board, the four-year graduation rates of community college transfer students from UT System academic institutions are generally higher than most of the reported six-year graduation rates of first-time, full-time undergraduates (Table 8). The six-year graduation rate is considered comparable to the transfer four-year rate because almost fifty percent of transfer students enter UT System institutions as upperclassmen with at least two years worth of full-time college coursework completed. UT Austin is the only institution to have a higher six-year graduation rate for its entering freshman class than its four-year transfer graduation rate.

Table 8: Graduation Rates of Transfer Students versus Traditional University Students

	Four-Year Graduation Rates for Community College Transfer Students					Six-Year Cumulative Graduation Rates for First-Time Full-time Undergraduates			
	1996	1997	1998	1999	2000	1995	1996	1997	1998
UT Arlington	45.2%	47.0%	49.6%	51.8%	49.2%	30.6%	36.4%	36.7%	37.6%
UT Austin	60.3	57.0	60.7	60.8	63.6	69.9	71.9	70.1	73.8
UT Dallas	52.7	53.1	56.4	54.4	57.2	55.2	51.8	56.2	56.4
UT El Paso	33.8	35.4	35.5	42.3	44.8	25.1	24.4	25.6	27.2
UT Pan American	33.0	35.5	42.6	46.7	50.0	22.9	24.6	26.2	26.7
UT Permian Basin	43.5	39.0	47.5	47.4	51.9	24.0	23.2	29.5	31.3
UT San Antonio	42.1	43.1	45.9	44.5	48.4	26.6	25.5	27.6	26.9
UT Tyler	53.7	59.3	57.2	53.9	67.6	--	--	--	41.4

Notes: 1) Four-year graduation rates are for students transferring with 30 or more semester credit hours from a community college who received an undergraduate degree within four years of enrolling at a U. T. Institution. (2) Six-year graduation rates are for first-time, full-time, degree-seeking undergraduates who begin in the summer/fall of the enrollment year and graduate at the same institution. The cumulative rates represent the sum of degrees conferred at the end of the sixth fiscal year following the summer/fall of first enrollment. (3) UT Brownsville/TSC is not included because Brownsville first-time undergraduates typically matriculate at Texas Southmost College. (4) UT Tyler did not admit freshmen until summer/fall 1998.

Source: The University of Texas System Statistical Handbook 2006

What can be done to improve the transfer rates of community college students into UT System academic institutions?

Community colleges are currently considered the primary beacon of hope to close the gaps in higher education in Texas. These institutions have seen tremendous growth in enrollments and taking on much of the burden in addressing college preparation. Public universities in Texas have limited capacity for growth and, in many cases, are ill-equipped to handle the remediation needs of under-prepared students. By allowing students to begin their college studies at a community college and encouraging their transfer into UT System institutions, UT System could see improvements in the number of students graduating from their institutions in a timely fashion. These students are proven to have the capability and motivation needed to succeed at a four-year institution. However, community college students are transferring into UT System academic institutions at very low rates. The reason for this is unclear. What is clear is that those that do transfer into universities are graduating at higher rates than the first-time, full-time freshman at these same institutions.

The ultimate goal is to increase the transfer rates of community college students into UT System academic institutions. This goal requires addressing two issues. First, increase the number of community college students interested in pursuing a four-year degree. Second, provide easy access to these students into UT System institutions. To that end, the following recommendations, which may be already in place among some partners, should be considered:

- (1) University recruitment events at local community colleges to increase interest and answer questions on admission requirements and preparation.
- (2) Placing information on transfer articulation agreements and transfer guides on all UT System academic websites for easy access by interested students.
- (3) Early access to university advisors to assist community college students in degree planning and course scheduling.
- (4) Dual enrollment agreements between universities and community colleges. Such students are considered university students, but are enrolled at a community college for certain courses. Dual enrollment agreements currently exist at a few UT System academic institutions, including UT Dallas, UT El Paso, and UT Tyler.
- (5) Collaborative efforts between university and community college faculty to improve course alignment.
- (6) Financial aid incentives for transfer students that maintain a high level of academic achievement, such as waiving a student's tuition and fees for four years.