April 23, 2013

Dr. Daniel:

We have completed an audit of the Lena Callier Trust for the Hard of Hearing and the Deaf (Trust) for fiscal year 2012, as part of our fiscal year 2013 Audit Plan, and the detailed report is attached for your review. The objective of our audit was to ensure compliance with the criteria established by the Trust and certain UT Dallas policies and procedures. Also, to determine if revenues are recognized and expenses are incurred in accordance with the terms of the Trust for fiscal year ending August 31, 2012. This audit is required by the Trust Agreement.

Overall, we found that UT Dallas generally complies with Trust agreement requirements. The review resulted in no recommendations considered significant to University operations. However, we recommended that the Lena Callier Trust Center cost center reconciliations be reviewed and approved in a timely manner in accordance with University guidelines.

Management has reviewed the recommendation and has provided an action plan for implementing the recommendation. Please let me know if you have any questions or comments resulting from this audit.

Toni Stephens
Executive Director of Audit and Compliance

The University of Texas at Dallas
Dr. Bert Moore, Dean of the School of Behavioral and Brain Sciences
Dr. Thomas Campbell, Executive Director of the Callier Center
Ms. Judith Lewis, Callier Center Business Manager

Members of the UT Dallas Audit and Compliance Committee:
Dr. Hobson Wildenthal, Executive Vice President and Provost
Dr. Calvin Jamison, Vice President for Administration
Ms. Wanda Mizutowicz, Acting Vice President for Budget and Finance
Dr. Andrew Blanchard, Vice President for Information Resources and Chief Information Officer
Dr. Darrelene Rachavong, Vice President for Student Affairs
Dr. Bruce Gnade, Vice President for Research
Dr. James Marquart, Vice Provost
Mr. Curt Eley, Vice Provost for Enrollment Management
Ms. Leah Teutsch, Chief Information Security Officer
Mr. Timothy Shaw, University Attorney
Ms. Lisa Choate, Partner, Ultimate Health Resources

The University of Texas System:
Dr. Pedro Reyes, Executive Vice Chancellor for Academic Affairs
Mr. Alan Marks, Attorney
Mr. J. Michael Peppers, CIA, CRMA, CPA, FACHE, Chief Audit Executive ad interim
Mr. Scott Wright, Ed. D, JAMP Executive Director
Ms. Moshmee Kalamkar, CPA, CIA, Audit Manager

State of Texas Agencies:
Legislative Budget Board
Governor's Office
State Auditor’s Office
Sunset Advisory Commission

Bank of America
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Executive Summary

<table>
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<tr>
<th>Lena Callier Trust</th>
<th>Responsible Party:</th>
<th>Auditors Assigned:</th>
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<tbody>
<tr>
<td>Audit Report No. 1320</td>
<td>Dr. Thomas Campbell, Executive Director, Callier Center</td>
<td>Scot St. Martin, CIA, CGAP, CRMA, Auditor In-Charge</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Joshua Scalf, Audit Intern</td>
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<tr>
<td></td>
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<td>Amy Wang, Audit Intern</td>
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**Audit Objective:** The objective of our audit is to ensure compliance with the criteria established by the Trust and certain UT Dallas policies and procedures. Also, to determine if revenues are recognized and expenses are incurred in accordance with the terms of the Trust for fiscal year ending August 31, 2012. This audit is required by the Trust Agreement.

**Audit Results:** The audit resulted in no recommendations considered significant to University operations. However, we recommended that the Lena Callier Trust Center cost center reconciliations be reviewed and approved in a timely manner in accordance with University guidelines.

**Conclusion:** Based on the audit work performed, it appears that UT Dallas is in compliance with the criteria established by the Trust and certain UT Dallas policies and procedures. Revenues were recognized and expenses were incurred in accordance with the terms of the Trust for fiscal year ending August 31, 2012.

**Does Management Agree with Recommendations?**

Yes ✓ No

**Estimated Date of Implementation:**

June 30, 2013
Background

The Lena E. Callier Trust for the Hard of Hearing and the Deaf (Trust) was created by the will of Lena E. Callier (Will) on May 1, 1975. The will established the Trust, and the Trust is perpetual and irrevocable. The Trustee, Bank of America, has determined UT Dallas to be the recipient of the net income earned by the Trust. UT Dallas is the sole recipient of net income of the Trust per the Agreement between the Trustee and UT Dallas. The Agreement is revocable and can be cancelled by either party with six months written notice. The Agreement requires UT Dallas to provide the Trustee “evidence satisfactory to Trustee that said funds, when paid, will be used for the purposes herein set forth.” As a result, UT Dallas performs procedures to ensure that funds received from the Trust are spent for Trust purposes.

The Trust is a portfolio composed of monies from oil and gas rights, mineral properties, real estate, money market funds, and various other securities. See the Appendix on page nine for a summary of the Will and Trust provisions. The table below illustrates the net income received from the Trustee, including interest income and expenses over the last two fiscal years. Expenses for fiscal year 2012 included travel, maintenance and operation, and capital outlay.

<table>
<thead>
<tr>
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<th>2012</th>
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<tbody>
<tr>
<td>Revenues</td>
<td>$189,907</td>
</tr>
<tr>
<td>Expenses</td>
<td>$71,866</td>
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<tr>
<td>Market Value</td>
<td>$5,525,976</td>
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</table>

Audit Objective

The objective of our audit is to ensure compliance with the criteria established by the Trust and certain UT Dallas policies and procedures. Also, to determine if revenues are recognized and expenses are incurred in accordance with the terms of the Trust for fiscal year ending August 31, 2012. This audit is required annually by the Trust Agreement.

Scope and Methodology

Where applicable, our examination was conducted in accordance with guidelines set forth in The Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of the internal auditing department.

This audit was conducted as part of our annual audit plan for fiscal year 2013. The audit is required annually as requested by the Trustee. To satisfy our objectives, we reviewed applicable documentation and conducted tests of fiscal year 2012 transactions. Our audit fieldwork concluded on February 28, 2013.
Specific audit procedures included, but were not limited to, the following:

This audit was conducted as part of our annual audit plan for fiscal year 2013. The audit is required annually by the Trustee. To satisfy our objectives, we reviewed documentation and conducted tests of transactions for fiscal year 2012. Specifically, our audit procedures included, but were not limited, to the following:

- Gained an understanding of the Trust requirements.
- Ensured Trust income (including interest income earned) was accurate, deposited in accordance with UT Dallas policies and procedures, and properly recorded within the university’s accounting system.
- Tested expenditures for:
  - compliance with Trust criteria and UT Dallas policies and procedures
  - proper authorization
  - adequate supporting documentation
- Ensured that Trustee published, in a newspaper of general circulation, receipts and disbursements and a general summary of activities of the trustee for FY 2012.
- Determined if account reconciliations for the Lena Callier Trust cost centers were being performed in accordance with UT Dallas guidelines and in a timely manner.
- Determined if previous internal audit recommendations had been implemented.

Audit Results and Management’s Responses

According to The UT System, a significant recommendation is defined as one that may be material to operations, financial reporting, or legal compliance. This would include an internal control weakness that does not reduce the risk of irregularities, illegal acts, errors, inefficiencies, waste, ineffectiveness, or conflicts of interest to a reasonable low level. There were no recommendations considered significant to University operations.

Audit Results

Overall, we found that UT Dallas appears to be in compliance with the terms of the trust Agreement. However, we did note one opportunity to enhance controls over Lena Callier Trust cost centers.
Enhance Timeliness of Cost Center Reconciliation Review and Approval

Departments are responsible for comparing the monthly financial reports in the accounting system to supporting documentation to ensure the accuracy and validity of revenues and expenses. An account (cost center) reconciliation system is used to track this activity, and UT Dallas business practices are outlined at [http://www.utdallas.edu/finance/main/procedure-acctrecon.html](http://www.utdallas.edu/finance/main/procedure-acctrecon.html). The business practices state:

Reconciliation, review and approval of cost center financial records should be performed on a monthly basis by knowledgeable personnel. The reconciliation, review and approval should occur within 30 days of month-end close.

We tested the 11 cost centers designated as Lena Callier Trust accounts to ensure that reconciliations were being performed by knowledgeable personnel, were reviewed and approved by the Business Manager or Executive Director as appropriate, and were being completed in a timely manner within 30 days of month-end close.

Our testing indicated that while they were generally reconciled in a timely manner, 42% were not reviewed and approved within 30 days of month-end close. We also noted that the reviews and approvals for FY 2013 are also not being conducted in a timely manner. Not conducting reconciliations within the 30 day time period increases the risks that error, noncompliance, and potential fraud could occur and not be detected in a timely manner.

Recommendation: We recommend that the Callier Center ensure that the Lena Callier Trust Center cost center reconciliations be reviewed and approved in a timely manner in accordance with University guidelines.

Management’s Response and Action Plan: We agree and will strengthen our procedures that require review and approval in a timely manner.

Estimated Date of Implementation: 3rd Quarter FY 2013, 6/30/13

Responsible Person: Dr. Thomas Campbell, Executive Director

Status of Prior Audit Recommendations

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Implemented?</th>
</tr>
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<tbody>
<tr>
<td>We again recommend that documentation be strengthened over expenses to ensure the adequacy of documentation, including business purpose, documentation retention, and coding.</td>
<td>Yes</td>
</tr>
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</table>
Conclusion

Based on the results of the audit, we conclude that UT Dallas appears to be in compliance with the criteria established by the Trust. For fiscal year ending 8/31/12, revenues are recognized and expenses are incurred in accordance with the Trust.

We appreciate the courtesy and cooperation received from Callier Center management and staff, the Office of Budget and Finance, and the Office of the Vice President for University Advancement during the audit process.
Appendix: Will and Trust Provisions

The following is a summary of the Lena Callier Will and Trust provisions. The funds should be used for the following purposes:

The principal of the Trust Estate shall not be consumed or expended, but the net income shall be used only for charitable purposes.

(1) Personnel, maintenance purchases.
(2) Medical research in hearing and deafness.
(3) Hearing aids to those in financial need.
(4) Salaries of teachers and operating personnel.
(5) General operating expenses.
(6) Maintenance, upkeep, and repair of facilities.
(7) Expansion or acquisition of equipment, physical facilities, building, and grounds.
(8) Medical or scientific research into the cause, treatment, prevention, cure of hearing impairments or defects and deafness.
(9) Contributions to non-profit corporations or unincorporated organizations or associations engaged in such research.
(10) Contributions to individual physicians, surgeons, and scientists engaged in such research to be used by them for such purposes, provided results are made available to the public without charge.
(11) Teaching of lip reading.
(12) Teaching of language and speech.
(13) Furnishing of educational facilities and services designed in whole or in part to meet the special problems and situations incident to the learning process.
(14) Furnishing of general educational facilities designed to afford the hard of hearing and the deaf opportunities comparable to those afforded by public institutions to the general public.
(15) Furnishing of psychological and psychiatric services to persons who are hard of hearing or deaf.
(16) Furnishing of medical and surgical treatment and care and hospitalization for relief, amelioration, prevention, or cure of defects or impairments in hearing where, in the opinion of the Trustee, financial circumstances of recipient are inadequate.

(17) Provide hearing aids or other hearing instruments to persons who are hard of hearing or deaf, who in the Trustee's opinion do not have adequate financial resources.

(18) Provide scholarships, subsidies, loans, or grants to individuals who are hard of hearing or deaf for purposes of enabling them to pursue courses of advanced study where financial circumstances are inadequate for the person to cover, and the character of the recipient is such that upon completion of such studies he may, in the opinion of the Trustee, be expected to advance and enlarge the field of knowledge in which studies have been pursued.

(19) Contribution to any non-profit charitable corporation or university or organization or association whose functions or services are for the betterment of the physical, mental, or educational condition of the hard of hearing and the deaf.

Geographical Limits

Applied only in the State of Texas and preferably Dallas County

Publicity

At least annually, publish in a newspaper of general circulation in Dallas County or in the State of Texas, a statement of receipts and disbursements and a general summary of activities of the Trustee.

Trustee

Bank of America

Trustee Request

At the request of the Trustee in a letter dated January 27, 1987, UTD is to "provide us with an annual accounting for our files that provides the necessary background to ensure to the Trustee that income is being used only for the purposes expressed in the Will of Mrs. Callier."