



**THE UNIVERSITY OF TEXAS AT DALLAS**

OFFICE OF INTERNAL AUDIT  
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September 4, 2018

Dr. Richard Benson, President,  
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of the Lena Callier Trust as part of our fiscal year 2018 Audit Plan. The objectives of the audit were to ensure compliance with the criteria established by the Trust and certain UT Dallas policies and procedures, and to determine if revenues are recognized and expenses are incurred in accordance with the terms of the Trust for fiscal year ended August 31, 2017. This audit is required annually by the Trust Agreement.

Based on the audit work performed, we conclude that overall management complies with the provisions of the Lena Callier Trust; however, opportunities exist to enhance monitoring of the Trustee to ensure proper accounting and compliance with the terms of the Trust established by the Will. Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates.

We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Sincerely,

Toni Stephens, CPA, CIA, CRMA  
Chief Audit Executive



## Executive Summary

### Audit Objective and Scope

The objectives of the audit were to ensure compliance with the criteria established by the Trust and certain UT Dallas policies and procedures, and to determine if revenues are recognized and expenses are incurred in accordance with the terms of the Trust for fiscal year ended August 31, 2017. This audit is required annually by the Trust Agreement.

### Conclusion

Based on the audit work performed, we conclude that overall management complies with the provisions of the Lena Callier Trust; however, opportunities exist to enhance monitoring of the Trustee to ensure proper accounting and compliance with the terms of the Trust established by the Will.

### Audit Recommendations by Risk Level

Recommendation	Risk Level	Estimated Implementation Date
1. Verify Undistributed Income Is Paid in Tax Year 2017	Medium	August 31, 2018
2. Monitor the Trustee to Ensure Annual Publication of the Financial Statements	Low	December 31, 2018

### Responsible Vice President

Dr. Inga Musselman, Provost and Vice President for Academic Affairs

### Responsible Parties

- Dr. James Bartlett, Interim Dean of the School of Behavioral and Brain Sciences
- Dr. Thomas Campbell, Executive Director of the Callier Center

### Staff Assigned to Audit

Project Leader: Melissa Carley, CPA, CIA, Staff Auditor

### Report Distribution

#### Members of the UT Dallas Institutional Audit Committee

##### External Members

- Ms. Lisa Choate, Chair
- Mr. Gurshaman Baweja
- Mr. Bill Keffler
- Mr. Ed Montgomery
- Ms. Julie Knecht

##### UT Dallas Members

- Dr. Richard Benson, President
- Dr. Hobson Wildenthal, Executive Vice President
- Dr. Kyle Edgington, Vice President for Development and Alumni Relations
- Mr. Frank Feagans, Vice President and Chief Information Officer
- Dr. Gene Fitch, Vice President for Student Affairs
- Dr. Calvin Jamison, Vice President for Facilities and Economic Development
- Dr. Inga Musselman, Provost and Vice President for Academic Affairs
- Mr. Terry Pankratz, Vice President for Budget and Finance
- Dr. Joseph Pancrazio, Vice President for Research
- Mr. Timothy Shaw, University Attorney, ex-officio

#### Responsible Parties

- Dr. James Bartlett, Interim Dean of the School of Behavioral and Brain Sciences
- Dr. Thomas Campbell, Executive Director of the Callier Center External Agencies
- The University of Texas System
- System Audit Office
- State of Texas Agencies
- Legislative Budget Board
- Governor's Office
- State Auditor's Office
- Sunset Advisory Commission



## Table of Contents

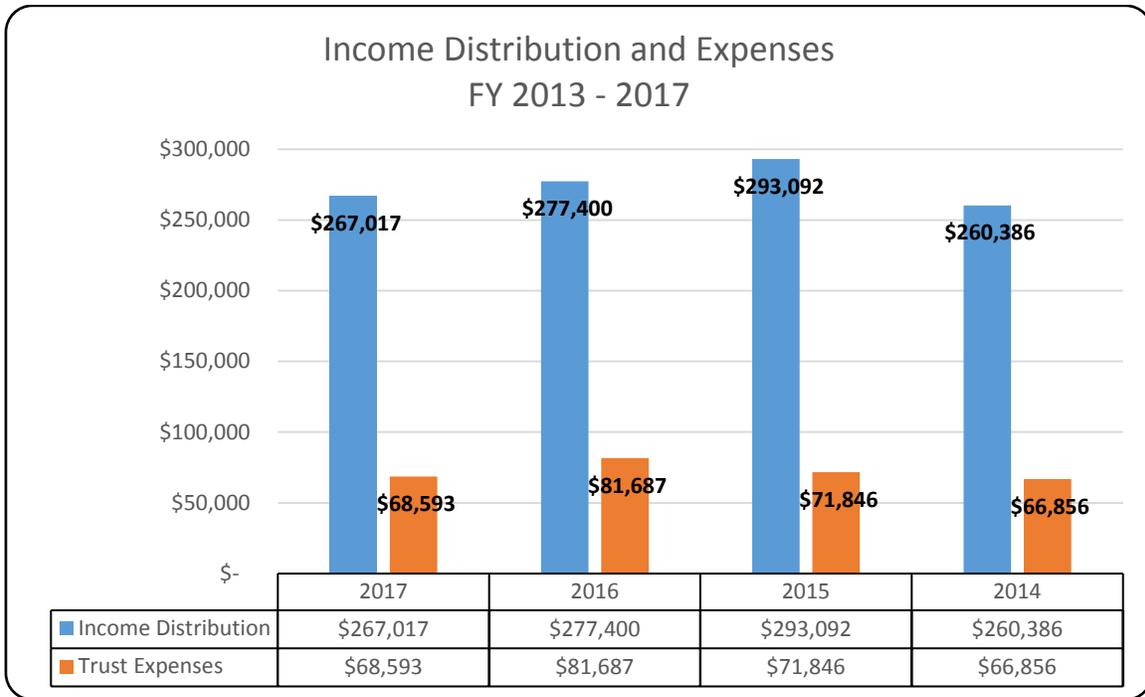
Background .....	3
Audit Objective .....	4
Scope and Methodology .....	4
Audit Results and Management’s Responses .....	4
Conclusion .....	7
Appendices	
1. Will and Trust Provisions .....	7
2. Benchmarks .....	8
3. Definition of Risks .....	11



## 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) in August 1955. The will established the Trust, and the Trust is perpetual and irrevocable. The Trustee, Bank of America, determined in 1975 that UT Dallas is the sole recipient of the net income earned by the Trust. The Agreement is revocable and can be cancelled by either party with a six month 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 investment funds, hedge funds, fixed income, and other securities. The table below illustrates the income received from the Trustee and the expenses incurred over the last four fiscal years. The market value for the Trust as of August 31, 2017, was \$6,345,506. The expenses for fiscal year 2017 included maintenance, operating expenses, and fees, totaling \$68,593.





## Audit Objective

The objectives of the audit were to ensure compliance with the criteria established by the Trust and certain UT Dallas policies and procedures, and to determine if revenues are recognized and expenses are incurred in accordance with the terms of the Trust for fiscal year ended August 31, 2017. This audit is required annually by the Trust Agreement.

## Scope and Methodology

The scope of this audit was FY17, and our fieldwork concluded on June 27, 2018. To satisfy our objectives, we performed the following:

- Verified the revenue and interest earned on the trust
- Substantiated proper use of the funds, according to the provisions of the trust
- Verified the administrative provisions of the trust were met
- Ensured effective management of the trust

We conducted our examination in conformance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. The *Standards* are statements of core requirements for the professional practice of internal auditing.

Additionally, we conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Results and Management's Responses

Overall, UTD is in compliance to the criteria set forth by the trust; however, opportunities exist to enhance the monitoring of the Trustee as outlined below. The risk levels are defined in [Appendix 3, Definition of Risks](#).



Observation and Risk Level	Risk/Effect	Recommendation	Management's Responses and Action Plans
<p><b>1. Verify Undistributed Income Is Paid in Tax Year 2017 (Medium Risk)</b></p> <p>The required minimum distribution, as calculated by the trustees for tax year 2016, has not been met. Bank of America has \$170,025 of undistributed income from the Lena Callier Trust for tax year 2016.</p> <p>The IRS requires a 5% distribution of the market value of the assets each year as the minimum investment return. The exact calculation is a part of the 990PF annual tax filing.</p>	<p>If the funds are not distributed to the Callier Center by 8/31/18, the IRS could levy taxes on the undistributed amount.</p>	<p>Monitor incoming funds to verify that the full amount of the requirement minimum distribution is deposited by 8/31/18. Work with the trustees to secure the distribution before the end of the fiscal year.</p>	<p><b>Management's Response and Action Plan:</b></p> <p><i>We agree with the two findings of the audit.</i></p> <p><i>Both of these findings are the result of U.S. Trust appointee not following through on their monitoring responsibilities. As you know, the designated appointee for the Lena Callier Trust has changed several times over the last eighteen months without our knowledge. For the coming year I have identified the current U.S Trust appointee and have reached out to him to discuss what will be necessary to remedy your findings. I have left a message for the current appointee and hope to schedule a phone review with him in August 2018. The U.S. Trust appointee is responsible for completing both of the responsibilities you mentioned in your findings. In summary my action will be to make contact with the U.S. Trust and discuss your findings with him in order to develop an action plan.</i></p>



Observation and Risk Level	Risk/Effect	Recommendation	Management's Responses and Action Plans
			<p><b>Estimated Date of Implementation:</b></p> <p><i>8/31/18</i></p> <p><b>Person Responsible for Implementation:</b></p> <p><i>Dr. Thomas Campbell, Executive Director of the Callier Center</i></p>
<p><b>2. Monitor the Trustee to Ensure Annual Publication of the Financial Statements (Low Risk)</b></p> <p>The Lena Callier Will states that <i>"The Trustee shall, not less frequently than annually, publish in a newspaper of general circulation in Dallas County, Texas, or in some other newspaper of general circulation within the State of Texas, a statement of its receipts and disbursements, which report shall include a general summary of the activities of the Trustee during the period covered by such accounting."</i></p> <p>The Trustee did not publish the required statement during 2017.</p>	<p>Noncompliance with the terms of the Will could result in reputational risks.</p>	<p>Callier Center management should monitor the Trustee to ensure annual publication of the financial statements.</p>	<p><b>Management's Response and Action Plan:</b></p> <p><i>See the above response</i></p> <p><b>Estimated Date of Implementation:</b></p> <p><i>12/31/18</i></p> <p><b>Person Responsible for Implementation:</b></p> <p><i>Dr. Thomas Campbell, Executive Director of the Callier Center</i></p>



## Conclusion

Based on the audit work performed, we conclude that overall management complies with the provisions of the Lena Callier Trust; however, opportunities exist to enhance monitoring of the Trustee to ensure proper accounting and compliance with the terms of the Trust established by the Will.

We appreciate the courtesy and cooperation received from the management and staff in the Callier Center as part of this audit.



## Appendices

### 1. 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:

#### Use of Funds

The principal of the Trust Estate shall not be consumed or expended, but the net income shall be used only for charitable purposes. The funds may be used for medical research in hearing and deafness, hearing aids for financial need, facilities, equipment, and other similar expenses.

#### 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

US Trust/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.

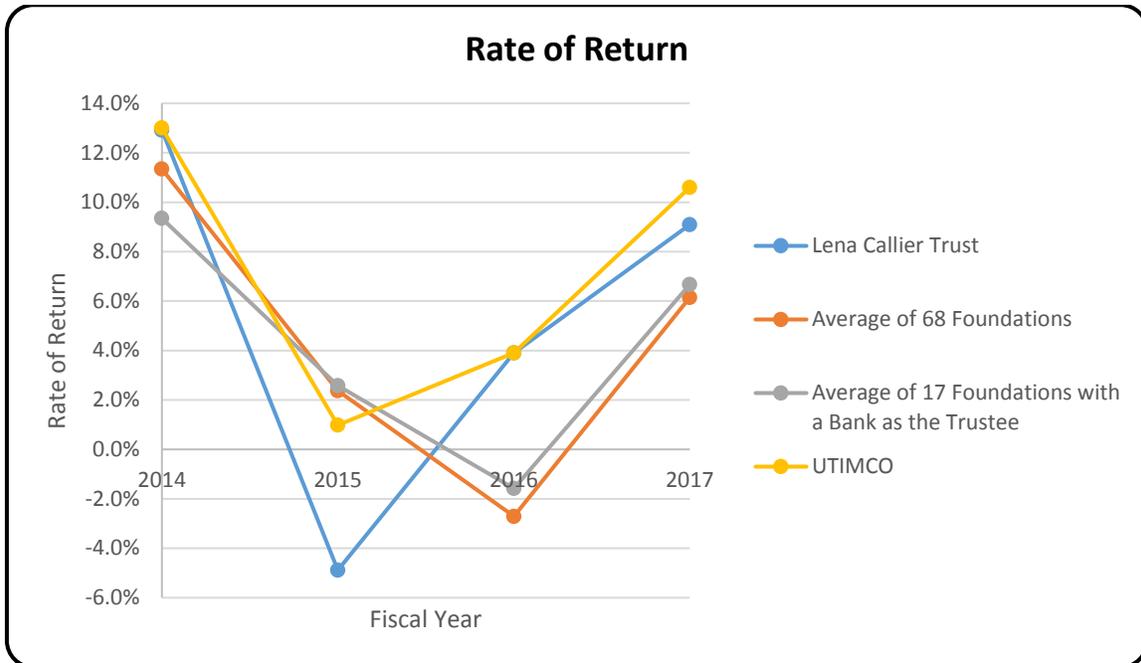


## 2. Benchmarks

As a part of this year’s audit, the Trust’s assets were benchmarked against 68 other foundations for rate of return, distribution percentage, and trustee compensation fees. Out of the 68 foundations, 17 trusts have banks as trustees. Additionally, the Trust was benchmarked against UTIMCO for rate of return, distribution percentage, and asset allocation of the portfolio.

### Rate of Return

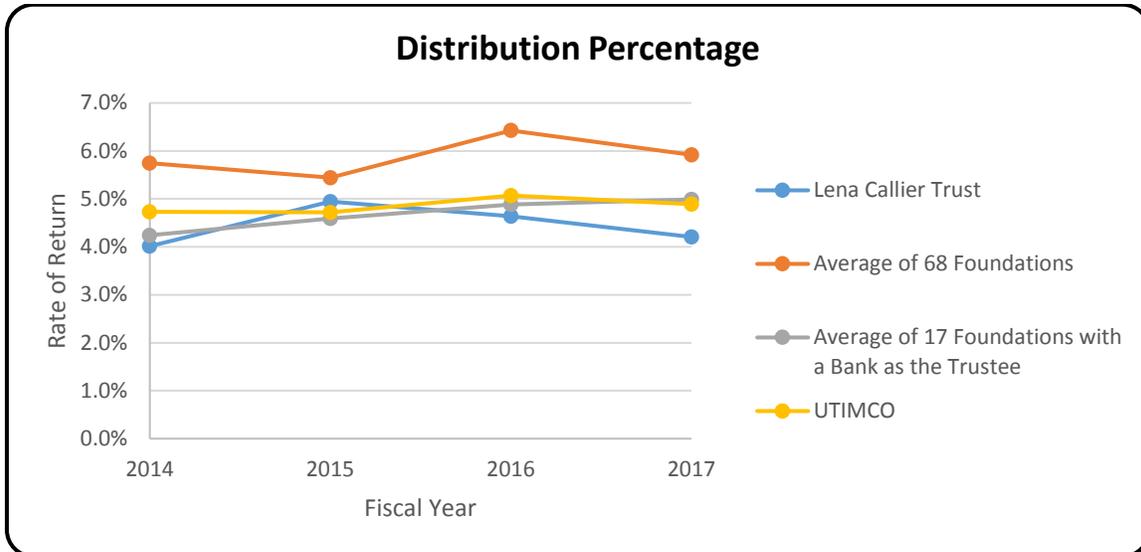
The Lena Callier Trust outperformed the average foundations and foundations with a bank as the trustee three out of four years. UTIMCO outperformed the Trust two out of four years, and matched the Trust two out of four years.





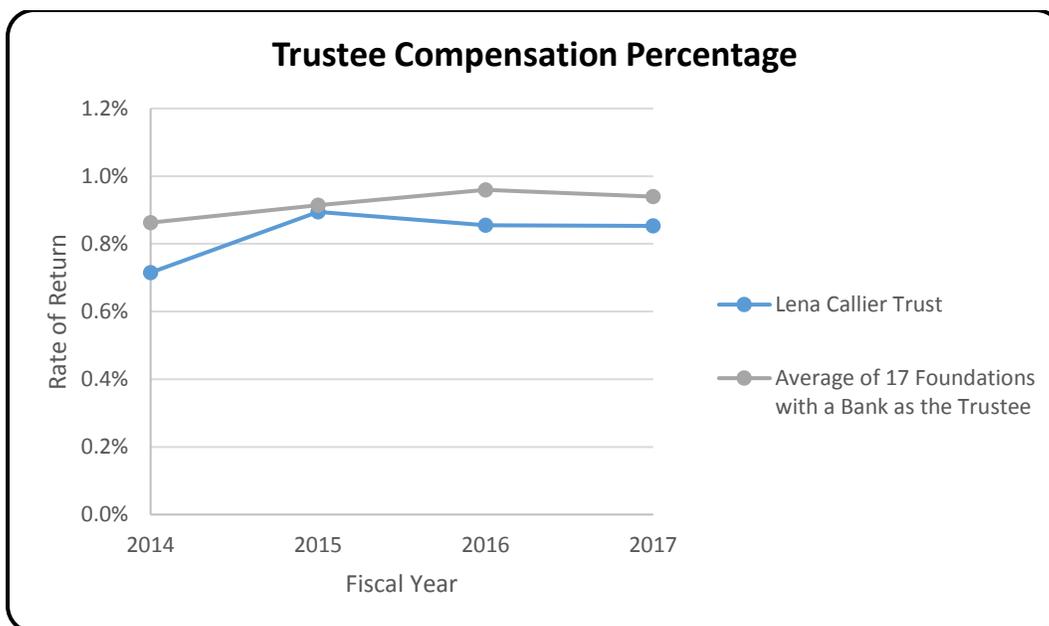
### Distribution

The Lena Callier Trust distribution percentage is below average compared to the sample foundations but aligns with foundations with a bank as the trustee.



### Trustee Compensation

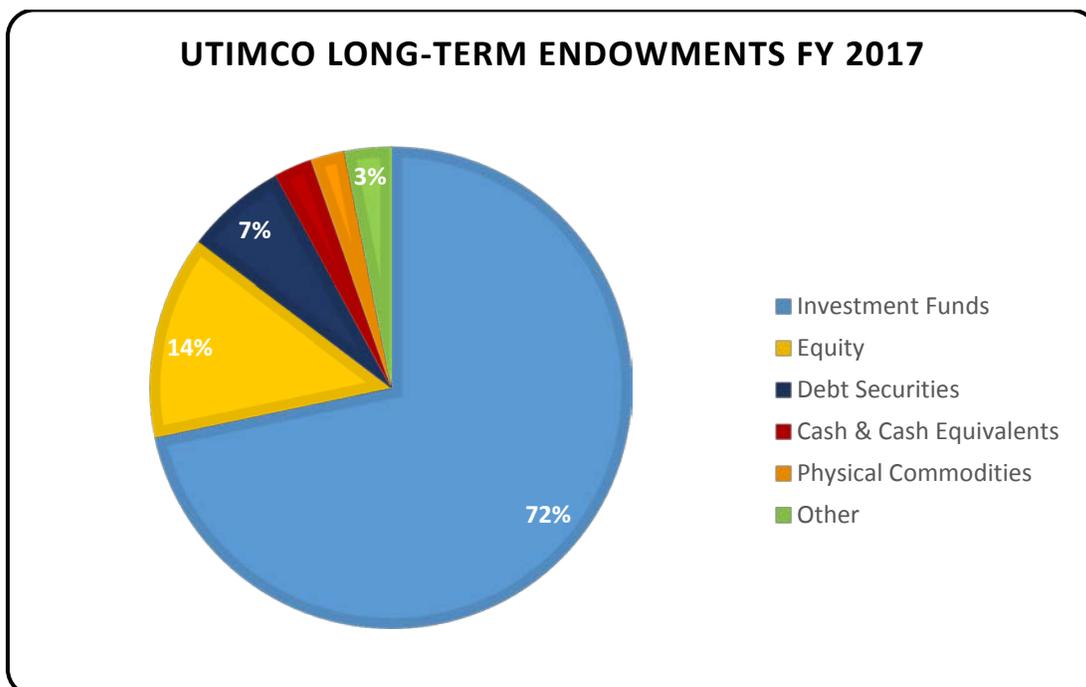
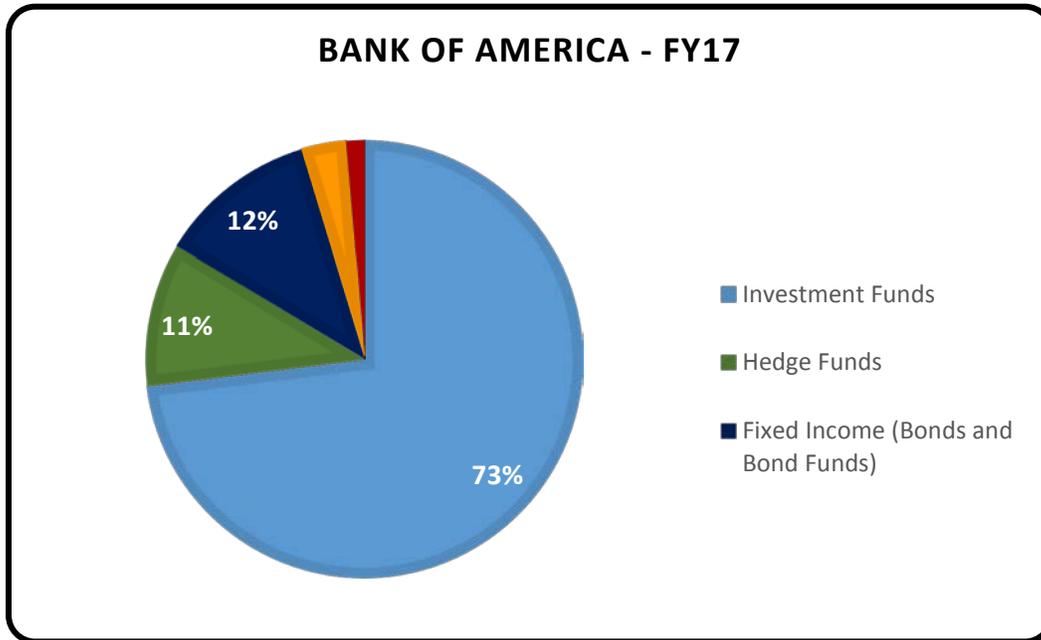
The Lena Callier Trust compensation percentage is below the average of foundations with a bank as the trustee.





### Asset Allocation

The Lena Callier Trust asset allocation has 21% in the higher-risk assets hedge funds and commodities. UTIMCO has 2% in the higher-risk asset of commodities.





### 3. Definition of Risks

Risk Level	Definition
<b>Priority</b>	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Risk Management Committee (ACRMC). Priority findings reported to the ACRMC are defined as <i>“an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”</i>
<b>High</b>	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
<b>Medium</b>	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
<b>Low</b>	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.