



**THE UNIVERSITY OF TEXAS AT DALLAS**

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July 11, 2019

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 2019 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, 2018. This audit is required annually by the Trust agreement. The report is attached for your review.

Based on the audit work performed, we conclude that overall, UT Dallas complies with the criteria set forth in the Trust Agreement, including compliance with expenses and revenue recognition. We offer no recommendations for improvement.

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.

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, 2018. This audit is required annually by the Trust agreement.

### Conclusion

Based on the audit work performed, we conclude that overall, UT Dallas complies with the criteria set forth in the Trust Agreement, including compliance with expenses and revenue recognition. We offer no recommendations for improvement.

#### Responsible Vice President(s)

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

#### Responsible Parties

- Dr. Steven Small, 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  
Staff: Valerie Hoops and Ryan Savino, Student Interns

#### Report Distribution

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

##### *External Members*

- Ms. Lisa Choate, Chair
- Mr. Gurshaman Baweja
- Mr. John Cullins
- Mr. Bill Keffler
- Ms. Julie Knecht

##### *UT Dallas Members*

- Dr. Richard Benson, President
- Mr. Rafael Martin, Vice President and Chief of Staff
- 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
- Ms. Sanaz Okhovat, Assistant Vice President for Research Integrity and Outreach and Chief Compliance Officer *ad interim*
- Dr. Joseph Pancrazio, Vice President for Research
- Mr. Terry Pankratz, Vice President for Budget and Finance
- Mr. Timothy Shaw, University Attorney, ex-officio

##### *Responsible Parties*

- Dr. Steven Small, 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



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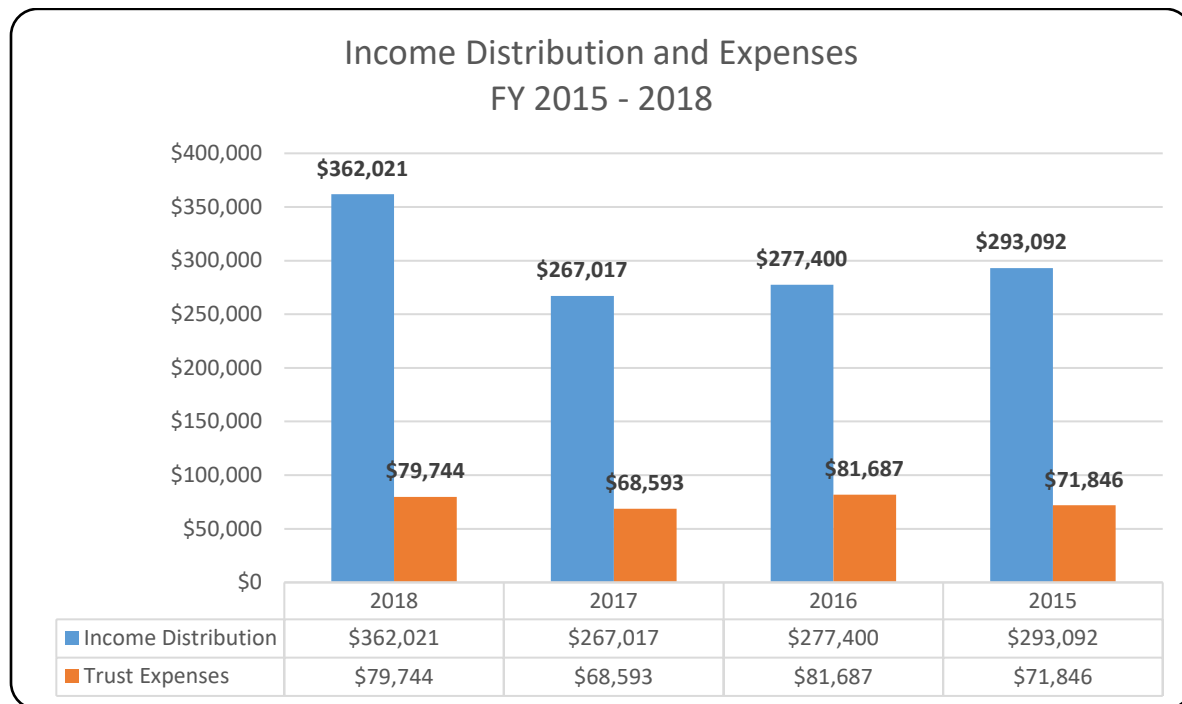
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## Background

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, U.S. Trust, owned by Bank of America, determined in 1975 that UT Dallas is the sole recipient of the net income earned by the Trust. The agreement requires that UT Dallas 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 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 year. The market value for the Trust as of August 31, 2018 was \$6,611,107. The trust expenses for fiscal year 2018 included operating expenses and fees, totaling \$79,744.





## 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, 2018. This audit is required annually by the Trust agreement.

## Scope and Methodology

The scope of this audit was FY18 and our fieldwork concluded on June 21, 2019. 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 Conclusion

Based on the audit work performed, we conclude that overall, UT Dallas complies with the criteria set forth in the Trust Agreement, including compliance with expenses and revenue recognition. We offer no recommendations for improvement.

We noted the following that will be verified in the FY20 annual audit:

### 1. **Verify Undistributed Income Is Paid in Tax Year 2018**

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. The required minimum distribution, as calculated by the Trustees for tax year 2017 is \$215,888. This amount must be distributed in tax year 2018. U.S. Trust has already distributed \$115,695 this year, leaving a remaining \$100,193 for distribution.



2. ***Monitor the Trustee to Ensure Annual Publication of the Financial Statements***

The Lena Callier Trust states that, *“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.”*

The FY17 financial statements were published on 9/14/18, so the trustee has until 9/14/19 to publish the FY18 financial statements.

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 Limitations

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

U.S. 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.”

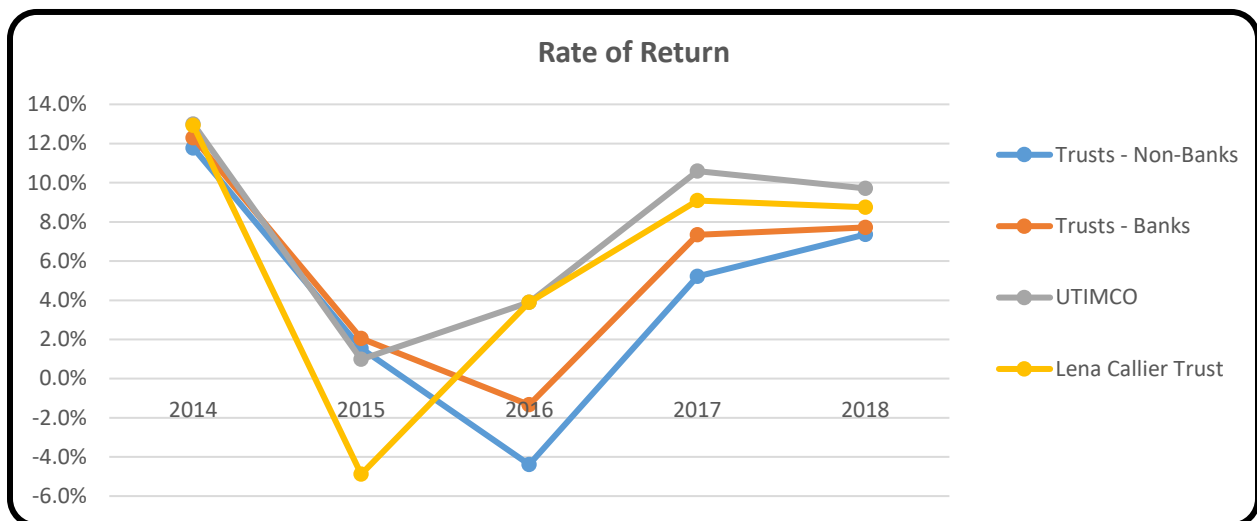


## 2. Benchmarks

As a part of this year’s audit, the Trust’s assets were benchmarked against 67 other foundations for rate of return, trustee compensation, distribution percentage, and percentage of other expenses. Out of the 67 foundations, 33 of the 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

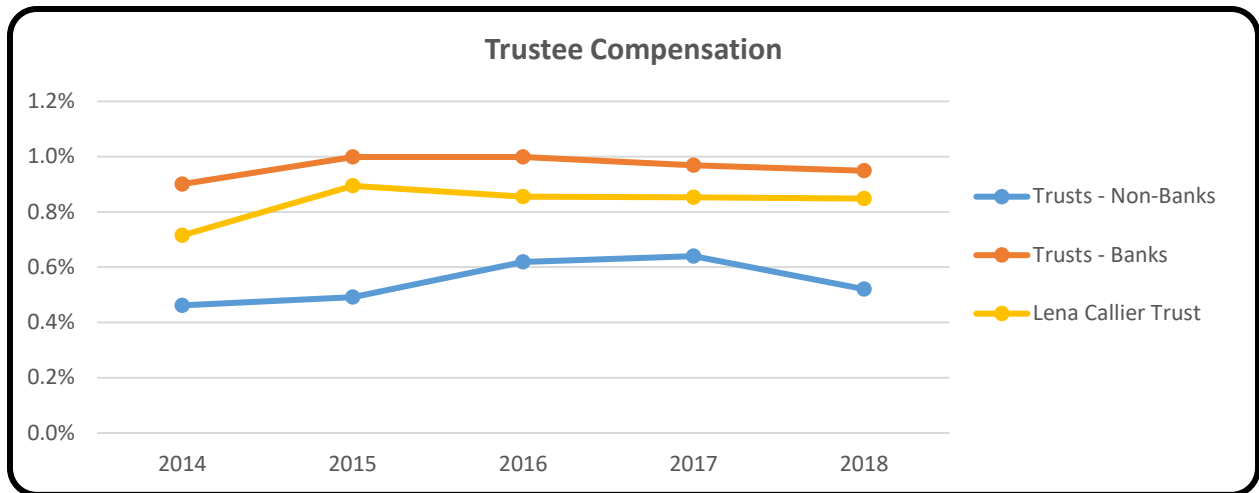
The Lena Callier Trust outperformed all the benchmarked trusts for four of the five years reviewed. UTIMCO outperformed the Lena Callier Trust three out of five years and matched the rate of return for two of the five years.



### Trustee Compensation

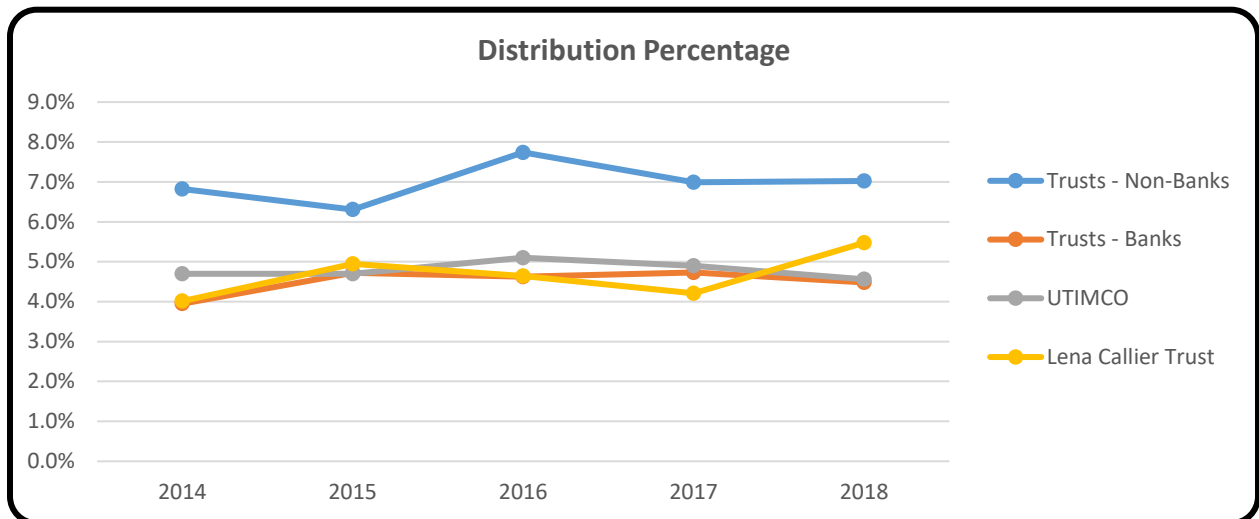
Trustee compensation for the Lena Callier Trust was less than the average of the trusts with banks as trustees but more than the average of trusts with non-banks as trustees. Many trusts with non-banks as trustees are not charged for their administrative services.





### Distribution Percentage

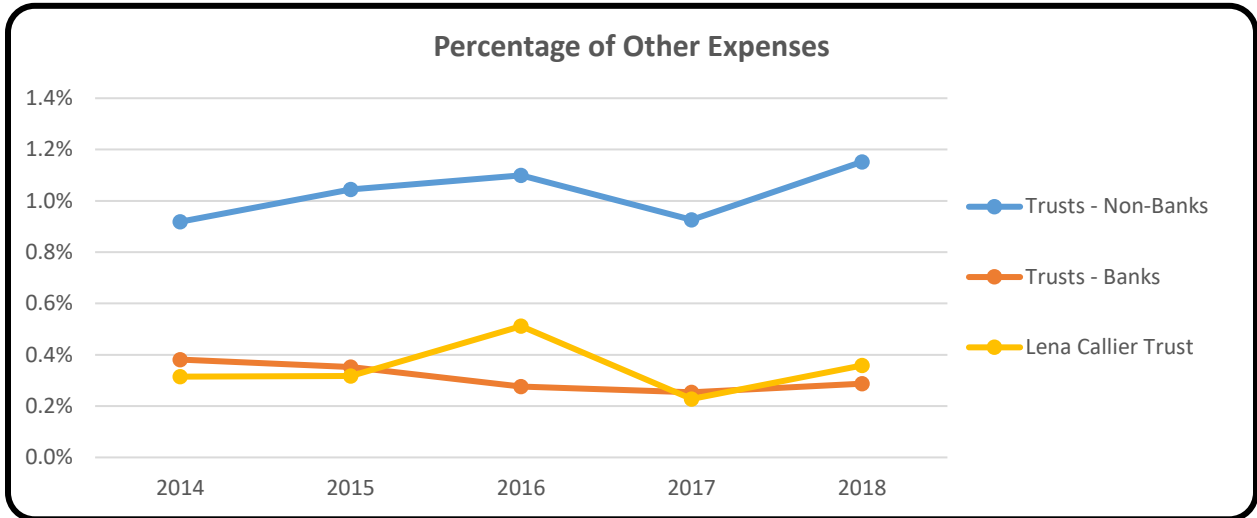
The Lena Callier Trust distribution percentage is similar to UTIMCO and trusts with banks as trustees.





### Percentage of Other Expenses

Despite one out of the five years reviewed, the Lena Callier Trust’s other expenses align with trusts with banks as trustees. Both groups are significantly below the average percentage of expenses for trusts with non-banks as trustees.





## Asset Allocation

The Lena Callier Trust assets are invested in riskier securities than UTIMCO, with 14% in hedge funds versus UTIMCO's 2%.

