



The University of Texas System
Endowment Compliance Annual Report

For the Period September 1, 2005 – August 31, 2006

Institution: The University of Texas at Dallas

I. General Information

A. How often did your Endowment Compliance Committee meet during this reporting period? 4 times

B. Detail the composition of your Endowment Compliance Committee. List number of members from each area.
(Numbers should equal total number of Committee members.)

Executive Management	Business Office	Academic Areas	Financial Aid/Scholarships	Development/Endowment Services	Other	Describe Other
2		1	1	3	1	Audit and Compliance

>> **Attach a list of committee members' names and titles.**

C. Endowment Compliance Fee

X The campus elected to receive .08% of the endowment compliance fee. If your campus received any distribution of this fee, detail your use by indicating the percentage of the fee allocated to each area. (Should total 100 %)

Staffing	Operations	Reporting	Fee Unused/Unspent	Other Use(s)	Describe Other Use(s)
98 %	2 %	%	%	%	

☐ The campus did not participate in the fee.

D. This report on endowment compliance should include only those endowments that have been officially approved (via Administrative Approval or by the Board via the Agenda) and should include endowments held by the Board of Regents and endowments held externally by U. T.-affiliated foundations. (Endowments held by individual trustees, banks and other non-U.T. entities should not be included.) For this reporting period, of your endowments that have been officially approved:

As of:	Total # of Endowments Held by Board of Regents	Total # of Endowments Held by U.T.-Affiliated External Foundations
09/01/05	106	0
08/31/06	131	0

II. Monitoring Risks and Analysis of Findings

- A. Briefly describe your process for assessing risks, including who was involved and what changes from the previous year were made, if any, to the assessment process and/or the risks identified.

Director of Endowment Services and Compliance (Director), under the direction of the AVP of Development and with the approval of the Director of Audit and Compliance, develops, implements, and revises the Risk Assessment and Monitoring Plans (RAMP's) for each identified risk area. A 100% review of the RAMP's was conducted in FY 2006. Each RAMP was revised and submitted to the Director of Audit and Compliance for review/approval. Further revisions were made as recommended. Finalized RAMP's were approved by the Endowment Compliance Team and will be implemented in FY 2007.

- B. For each risk that you identified, provide the following information. (This should mirror the risks listed on your attached Risk Assessment.)

Example: Our institution has determined that one of our risks is unfilled academic positions. We have a total of 120 endowed academic positions (i.e., 120 total endowments that are potentially impacted by this risk). To monitor the occurrence of this risk we reviewed 100 of these academic position endowments to see if each had a named holder or had a plan of recruitment, if unfilled. Therefore, we monitored 83% of the total number of endowments that could be impacted by this risk (i.e., $100 \div 120$ is 83%).

Description of Risk	(A)	Was This Risk Monitored	(B)	% Reviewed (B) ÷ (A)
	Total # of Endowments Potentially Impacted by This Risk		# of Endowments Reviewed to Monitor for This Risk	
1. Adherence to gift acceptance procedures	25	Yes	25	100 %
2. Adherence to terms of the endowment agreement	131	Yes	131	100 %
3. Proper Use of endowment distributions	131	Yes	131	100 %
4. Excessive Accumulations of cash distributions	106	Yes	106	100 %
5. Unfilled endowed faculty positions	45 (fully funded; BOR approved)	Yes	45	100 %
6. Timely reports to donors and endowment stakeholders (internal and external)	131	Yes	131	100%

To report on additional Risks, please list them in this format on a separate attachment.

>> Attach a copy of your Risk Assessment.

- C. Briefly describe the monitoring activities performed for each risk listed above. (i.e., How did you assess the occurrence of each risk?)

Description of Risk	Monitoring Activity
1. Adherence to gift acceptance procedures	The Director is responsible for the coordination of the development and approval of endowment agreements. The Director maintains A <i>New Endowment Log</i> and <i>New Endowment Checklist (Gift Approval and Implementation)</i> . Each proposed endowment gift was reviewed, documented on the <i>New Endowment Log</i> , and processed according to <i>UTD Gift Acceptance Procedures</i> , applicable UT System Regents Rules and Regulations, and applicable IRS Publications with the oversight of the Director.
2. Adherence to terms of the endowment agreement	The Director reviews selected samples of expenditures, revenues, and transfers of endowment distributions on an annual basis. Revenues and transfers were reviewed for 100% of the endowments in FY 2006. Expense object codes were also reviewed and compared to terms of the agreements for 100% of

Comment [TRM1]: whom?

	the endowments in FY 2006.
3. Proper use of endowment distributions	The Director monitored implementation of new endowments and FY 2006 expenditures for 100% of the endowment accounts for compliance with state/federal laws and regulations, U. T. Board of Regents <i>Rules and Regulations</i> , and UTD policies and procedures.
4. Excessive accumulations of cash distributions	The Director monitored and reported excessive balances to the endowment administrators and deans. For each endowment with an excessive balance (2x or greater annual revenues), administrator submitted a plan of action to the Director. These plans are compiled into one report which was submitted to the President's cabinet for review/approval. Reports of accounts with excessive balances are provided annually, and more often as indicated, to the Endowment Compliance Team.
5. Unfilled endowed faculty positions	The Director maintained a list of unfilled positions. This list was provided to the Endowment Compliance Team, Provost's Office, and the Office of Strategic Planning for the annual performance report to the Higher Education Coordinating Board.
6. Timely reports to donors and endowment stakeholders (internal and external)	Reports/spreadsheets were maintained documenting the status of the reporting functions by the Director. The status of the reporting function is reported to the Endowment Compliance Team.

To report on additional Risks, please list them in this format on a separate attachment.

D. For any risks that were identified but not monitored, please explain.

None

>> Attach copies of your Monitoring Plan and your Institutional Policy Regarding Appropriate Endowment Expenditures.

E. Address the status of your institution's endowments related to the categories listed below.

1. Excessive Accumulations of Endowment Distributions (*Indicate your findings.*)

Example: Our institution has set its standard for acceptable endowment accumulations as accumulations that do not exceed 2x the annual distribution for the endowment. Our review indicated that of our 250 endowments, 12 (5 %) failed to meet our standard and were deemed to have excessive accumulations. Our endowment compliance officer has met with 10 of these signatories to address the concern and has meetings pending with the remaining 2 signatories.

- a. Has your institution adopted a standard for excessive accumulations? Yes
- b. If adopted, what is your institution's standard that defines excessive accumulations?

A balance of 2x or greater the annual cash distribution, i.e. ratio of 2.0 or >, are defined by UTD policy as excessive.

- c. If adopted, please list the following information from your review for excessive accumulations.

(A) Total # of Endowments	(B) # of Endowments Reviewed	% (B) ÷ (A)	(C) # of Endowments Identified with Accumulations in Excess of Your Standard	% (C) ÷ (B)
131	131	100 %	22	17 %

(D) Of endowments Identified with Excessive Accumulations, # Determined to Have Acceptable Reasons	% (D) ÷ (C)	(E) Of endowments Identified with Excessive Accumulations, # Determined Not to Have Acceptable Reasons	% (E) ÷ (C)
5	23 %	17	77 %

For endowments determined not to have acceptable reasons, explain and list actions taken to address these:

Each endowment administrator is required to submit a plan for utilization or reinvestment of excessive balances. These reports are compiled into a single report which is submitted to the President's cabinet for review/approval. Director monitors implementation of plans. Progress reports are submitted to the President's Cabinet annually or more often if indicated.

- d. If your institution has not adopted a standard for excessive accumulations, please explain, and indicate if and when you plan to adopt a standard for excessive accumulations.

NA

2. Discretionary Reinvestment of Distributions (Indicate your findings.)

Definition: Discretionary reinvestment is reinvestment of endowment distributions done at the discretion of your institution. It is not reinvestment that is required by the donor in the gift agreement or by System policies for endowments with less than the minimum required funding.

Example: Our institution considers discretionary reinvestment of 5 % or less of the total annual endowment distribution to be acceptable and not requiring further review. Discretionary reinvestment amounts over this standard require review and an acceptable reason for reinvestment and/or a plan to limit future reinvestment. Of our 250 endowments, 22 endowments (9 % of 250) had discretionary reinvestment amounts higher than our standard. Of those 22, it was determined that 10 (45 % of the 22 identified) were being reinvested short-term to better meet funding requirements of the endowment, and this was found to be acceptable. Three endowments (14 % of the 22 identified) were identified as having provisions that hindered appropriate expenditure; we are working with the UT System Office of Development and Gift Planning Services on corrective actions. Signatories on the other 9 endowments (41 % of the 22 identified) have been advised to limit future reinvestment.

- Has your institution adopted a standard below which discretionary reinvestment is acceptable? Yes
- If adopted, what is your institution's standard for acceptable discretionary reinvestment?

Effective FY 2007, 100% of all discretionary reinvestments, as well as those with reinvestments of unused funds as required by the endowment agreement, will be reviewed and approved by the Endowment Compliance Team. The team will forward these reports to the Provost and President as they deem necessary to ensure that the terms and spirit of the endowment agreements are honored.

All instances of discretionary reinvestments and reinvestment of unused funds as required by the endowment agreement that meet at least one the following criteria will automatically be reported to the Provost and President:

- **Reinvestment meets or exceeds the amount of the annual distribution**
- **Reinvestment is made for two or more consecutive years**

c. If adopted, please list the following information from your review for exceptions to your standard for discretionary reinvestment.

(A) Total # of Endowments	(B) # of Endowments Reviewed	% (B) ÷ (A)	(C) # of Endowments Identified with Discretionary Reinvestment in Excess of Your Standard	% (C) ÷ (B)
Standard will be implemented FY 2007; FY 2006 discretionary reinvestments were monitored	131	100 %	NA; standard not adopted until FY 2007. Monitoring indicated that six accounts had discretionary reinvestments totaling \$40,026.00. Only one had discretionary reinvestments for two consecutive years. This account has criteria that limit expenditures. Action plan is in place to rectify this situation. Only one account with criterion that unused funds be reinvested had unused funds.	%

(D) Of endowments Identified with Excessive Discretionary Reinvestment, # Determined to Have Acceptable Reasons	% (D) ÷ (C)	(E) Of endowments Identified with Excessive Discretionary Reinvestment, # Determined Not to Have Acceptable Reasons	% (E) ÷ (C)
0	0 %	0	0 %

For endowments determined not to have acceptable reasons, explain and list any actions taken to address these:

NA

d. If your institution has not adopted a standard for discretionary reinvestment, please explain, and indicate if and when you plan to adopt a standard for discretionary reinvestment.

NA

e. If your institution has not adopted a standard for discretionary reinvestment, please provide the following:

(A) Total # of Endowments	(B) # of Endowments Reviewed	% (B) ÷ (A)	(C) # of Endowments Identified with Discretionary Reinvestment	% (C) ÷ (B)
		%		%

(D) Of endowments Identified with Discretionary Reinvestment, # Determined to Have Acceptable Reasons	% (D) ÷ (C)	(E) Of endowments Identified with Discretionary Reinvestment, # Determined Not to Have Acceptable Reasons	% (E) ÷ (C)
	%		%

For endowments determined not to have acceptable reasons, explain and list any actions taken to address these:

NA

3. Expenditures Outside of Intended Purpose (Indicate your findings.)

Example: Of our 250 endowments, 75 (30 %) were reviewed for appropriate expenditures. Two (3 % of the 75 reviewed) had expenditures considered outside of the intended purpose. In both instances, the account was reimbursed from a more appropriate source.

a. Please list the following information from your review for expenditures outside of the intended purpose.

(A) Total # of Endowments	(B) # of Endowments Reviewed	% (B) ÷ (A)	(C) # of Endowments Identified with Expenditures Outside Intended Purpose	% (C) ÷ (B)
131	131	100 %	0	0 %

For endowments identified with expenditures outside the intended purpose, explain and list any actions taken to address these:

NA

4. No Expenditures (Indicate your finding.)

Example: Of our 250 endowments, 75 (30 %) were spot-checked for no expenditures. There were eight (11 % of the 75) accounts that had no expenditures. In one instance, the signatory was unaware of the account and was provided with needed documents and counseled on the endowment compliance program. One of the accounts was not being spent because the purpose is no longer viable. We are working with the U. T. System Office of Development and Gift Planning Services to address this challenge. Three of the endowments fall under one department and are waiting on the appointment of a new department chair. The other three signatories were counseled on the importance of spending the endowment distributions for the purposes of the endowment.

- a. Please list the following information from your review for no expenditures.

(A) Total # of Endowments	(B) # of Endowments Reviewed	% (B) ÷ (A)	(C) # of Endowments Identified with No Expenditures	% (C) ÷ (B)
131	131	100 %	45; 25 are fully funded and BOR approved	19% fully funded and BOR approved

For endowments identified with no expenditures, explain and list any actions taken to address these:

Analysis of accounts with no expenditures indicates that the percentage of accounts that are fully funded and BOR approved, excluding unfilled faculty positions, is 11% compared to FY 2005 of 9%.

Evaluation of reasons for no expenditures indicated that only **25** endowments were **fully funded with BOR approval**; **10** of the 25 (40%) consisted of **faculty positions that were unfilled or filled at the end of FY 2006**. **Eight** of the 25 (32%) are on the excessive balances list and **have written plans** for utilizing the balances. The remaining **seven** (28%) **are under review** and administrators will be contacted to explain reasons for no expenditures. **One of these seven has endowment agreement restrictions that prevent utilization.** A plan of action to remediate these restrictions is being implemented in FY 2007.

5. Unfilled Academic Position Endowments (Indicate your findings.)

Example: Of our 250 endowments, 190 support endowed academic positions. Of the 190 positions, seven (4 % of the 190) had no appointments during this period. Five of the positions are being actively recruited. The remaining two are being reviewed. Our committee has determined that it is acceptable for our institution to have 5 % or less of our total academic positions unfilled at any given time.

- a. Has your institution adopted an acceptable standard for numbers of unfilled academic positions? Yes
- b. If adopted, what is your institution's acceptable standard for numbers of unfilled academic positions?

100% of endowed faculty positions that are unfilled for the first three years following being fully funded and BOR approved and any three consecutive years following the first appointment will be reported to the Provost. It is not feasible to establish an unacceptable number or percentage of unfilled positions at this point because the percentage of new positions compared to the total number of positions is very high. Approximately one-third of UTD's endowed positions were established in FY 2005 and FY 2006 which is consistent with the Strategic Plan.

- c. If adopted, please list the following information from your review of academic position endowments.

(A) Total # of Academic Position Endowments	(B) # of Academic Position Endowments Reviewed	% (B) ÷ (A)	(C) # of Unfilled Academic Positions in Excess of Your Standard	% (C) ÷ (B)
44	44	100 %	2 –unfilled for three consecutive years	5 %

If you have unfilled academic positions in excess of your standard, explain and list any actions taken to address excessive numbers of unfilled positions:

The status of the chairs unfilled for three consecutive years was reported to the Provost. One of these two is unfilled for five consecutive years according to an agreement between the Provost and the donor. The Provost will consult with the respective dean regarding the other position that has been unfilled for four consecutive years.

- d. If your institution has not adopted a standard for numbers of unfilled academic positions, please explain, and indicate if and when you plan to adopt a standard.

NA

- e. If not adopted, please list the following information from your review of academic position endowments.

(A)	(B)	%	(C)	%
Total # of Academic Position Endowments	# of Academic Position Endowments Reviewed	$(B) \div (A)$	# of Unfilled Academic Positions	$(C) \div (B)$
		%		%

For unfilled academic positions identified, explain and list any actions taken to address these:

NA

- G. Briefly describe your institution's procedures to ensure that new endowments and amendments to existing endowments to be submitted for administrative approval adhere to UT System Gift Acceptance Procedures.

The Director, under the leadership of the Assistant Vice President of Development, is responsible for the coordination of the development and approval of endowment agreements and amendments to existing agreements. A *New Endowment Log* and *New Endowment Checklist (Gift Approval and Implementation)* are maintained by the Director. Each proposed endowment gift or amendment is reviewed, documented on the *New Endowment Log*, and processed according to *UTD Gift Acceptance Procedures*, applicable UT System Board of Regents *Rules and Regulations*, and applicable IRS Publications.

One-on-one orientation and training of major gift officers and other internal solicitors is provided. Orientation includes *UTD Gift Acceptance Procedures*, the endowment compliance program, and UTD policies. A copy of each new endowment agreement and *Summary of Approval* are provided to the respective dean and endowment administrator.

Training is also provided in regularly scheduled department meetings as indicated. The Director provides ongoing guidance and training with the gift officers during the negotiations with donors and the drafting of the endowment agreement.

- H. Briefly describe your institution's procedures to assure that new endowments are submitted to UT System for administrative approval in a timely manner?

The *New Endowment Log* and *New Endowment Checklist* are monitored and updated weekly. Also, the online system for pending gift items is monitored at least monthly. These are completed by the Director.

- I. Briefly describe your institution's procedures to assure that endowment funds are transmitted promptly for investment in the Long Term Fund?

Accounts are monitored by the Director when *Summary of Approval* is received to ensure that funds have been transmitted. The Office of Finance also monitors transfers.

- J. Briefly describe any other activities during the reporting period that relate to monitoring.

A random sample of accounts is selected each year to monitor whether account reconciliations are being completed according to policy by the responsible department/school. During this review, back-up for selected expenditures is reviewed in the department. This review of FY 2006 will be completed by calendar year end 2006.

Finally, the *Reports of Use* that certify how cash distributions were utilized by the endowment administrators are reviewed and compared to results of other monitoring activities.

III. Training

A. Describe your institution's endowment compliance training program and your target population(s).

Example: Our institution has 24 individuals working with endowments. 16 (67 % of 24) attended training; 8 (33 % of 24) still need to attend training. We held an overview of endowment compliance issues in the Fall and a review of appropriate expenditures in the Spring. Attendees included representatives from the Development Office, Signatories on the accounts (including 2 Deans) and the Budget Office.

1. Describe your institution's training program, including topics addressed.

Target Population: Provost, Deans, Directors, endowment administrators, and their staff members

Method (s): One- to-one training with each newly appointed dean and endowment administrator/staff. Group or department in services as requested or indicated.

Topics:

- Endowment *Compliance Plan and Program*
- Individual endowment agreements
- UTD endowment management policy including excessive balances, no expenditures, discretionary and required reinvestments guidelines
- Risk assessments and monitoring plans
- Reporting requirements
- *UTD Gift Acceptance Procedures*

Target Populations: Development officers, Directors and staff

Topics:

- UTD endowment management policy including excessive balances, no expenditures, discretionary and required reinvestments guidelines
- Endowment *Compliance Plan and Program*
- Reporting requirements
- Establishment of new endowment agreements, procedure and approval process
- Number and type of endowments in their areas of responsibility
- *UTD Gift Acceptance Procedures*

2. Have you identified your target population for training? Yes

3. If identified, describe the make-up of your target population.

See above

(A)	(B)	%
Total # in Target Population	Total # of Target Population That Received Training	(B) ÷ (A)
41	29	70 %

B. For those members of your target population who have not attended training, how have you ensured that they are adequately informed regarding endowment compliance matters?

100% of targeted population will receive training. Due to the high number of new administrators, directors and deans appointed in FY 2006, 12 are pending and will be completed as soon as individuals are available for appointments. New deans and directors are provided adequate time to complete general orientation to UTD and their key result areas prior to request for appointment.

C. Briefly describe any other activities during the reporting period that relate to training.

Ongoing orientation for Development gift officers and directors during department meetings is conducted as well as one-on-one training with specific proposals.

IV. Reporting

A. Summarize reporting activities to endowment donors that have occurred during this reporting period.

Example: At our institution every holder of an endowed academic position is required to send a letter to our president outlining how the funds have been used. This letter, along with a cover letter from the president, and an endowment financial report is provided to the endowment donors. For some of our endowments, we do not have record of a known donor/contact to which a report can be provided. Of our 250 endowments held by the Board of Regents, 190 are endowed academic positions. Of these, 182 (96% of 190) have a known donor/contact to which a report can be provided. We provided reports for all 182 of these (100% of 182). We have 45 endowed scholarships of which 40 (89 % of 45) have a known donor/contact, and we sent reports for all 40 of these (100 % of 40). We have 15 endowments supporting miscellaneous purposes. Of these, all 15 (100 % of 15) have a known donor/contact. However, through an oversight, we only sent reports to 12 of these (80 % of 15). Overall, 237 of our endowments (95 % of 250 total endowments) have a known donor/contact to whom a report could be sent, and we provided reports for 234 of these (99 % of 237).

FY 2006 annual reports are being prepared and will be mailed the first week in January 2007 to all known donors and related stakeholders. FY 2005 annual reports were mailed in January 2006.

(B)	(B)	%	(C)	%
Total # of Endowments	Total # of Endowments With A Known Donor/Contact	(B) ÷ (A)	# of Endowments With A Known Donor/Contact for Which Reports Were Sent	(C) ÷ (B)
131	114	87 %	114*	100 %

*FY 2006 Reports will be mailed in January 2007

If you did not send reports for all endowments for which the donor or a contact is known, please explain.

NA

B. Do you provide a "Report of Use Letter" with your report? Yes

C. Do you include a copy of UTIMCO's endowment report for BOR-held endowments? Yes

D. How do you communicate to executive management the activities and findings of your institution's endowment compliance program?

Example: Two members of our executive management team, our provost and dean of the engineering school, serve on the endowment compliance committee. A copy of this report is provided to executive management.

Two members of the Endowment Team are members of the executive team: 1) the VP for Development, 2) Interim VP for Business Affairs. The VP for Development, as Endowment Compliance Executive, presents reports as indicated. The President approves the annual report to U. T. System.

1. Are Endowment Compliance Committee reports provided to your President? Yes. If yes, how is the President reported to?

Via direct report? Yes - through the VP for Development/Endowment Compliance Executive

Via other executive management members on your Endowment Compliance Committee? No

Via your Institutional Compliance Committee? Yes

If via some other means, please explain.

The Director of Audit and Compliance makes quarterly reports to the President and the Institutional Compliance Committee.

2. Are Endowment Compliance Committee reports provided to other executive management? Yes
If yes, who is reported to?

Excessive Balances, No Expenditures, Discretionary and Required Reinvestment Reports are/will be provided to the President's Cabinet for approval.

If yes, how is other executive management reported to?

Via direct report? Yes

Via their membership on your Endowment Compliance Committee? Yes

Via your Institutional Compliance Committee? Yes

If via some other means, please explain.

All of the above

E. Briefly describe any other activities during the reporting period that relate to reporting.

NA

V. Other Comments

This template was much easier to complete (format and questions) than last year's report. Thank you for the improvements. Barbara Seale, Director of Endowment Services and Compliance.

VI. Signatures

Designated Endowment Executive

President

Date submitted to the U. T. System: _____

List of Attachments:

List of Endowment Compliance Committee Members and Titles
Risk Assessment
Monitoring Plan
Institutional Policy Regarding Appropriate Endowment Expenditures

Notes on submitting this Report. This report should be submitted electronically to Charlotte Hambrick, at chambrick@utsystem.edu no later than **December 1, 2006**. A hard copy of the report that includes the signatures of the institution's *Designated Endowment Executive* and the *President* and specified attachments should also be forwarded to Charlotte Hambrick at the following address:

The University of Texas System
Office of Development and Gift Planning Services
210 West 6th Street, Room 1.200
Austin, Texas 78701