

MINUTES OF MEETING OF  
THE AUDIT AND ETHICS COMMITTEE OF  
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

The Audit and Ethics Committee of The University of Texas Investment Management Company (the "Committee") convened on the 31st day of July, 1996, via conference call, said meeting having been called by the Committee Chairman, with notice provided to each member in accordance with the Bylaws. Participating in the meeting were the following members of the Committee:

Donald L. Evans  
Robert H. Allen  
Susan M. Byrne

thus, constituting a majority and quorum of the Committee. Also, participating in the meeting was Thomas G. Ricks, President of The University of Texas Investment Management Company (the "Corporation"); and Cathy Iberg, Vice-President - Investment Operations of the Corporation. Donald L. Evans, Chairman, called the meeting to order at 3:00 p.m.

**Approval of Minutes**

The first matter to come before the Committee was approval of the Audit and Ethics Committee Minutes of the June 10, 1996 meeting, copies of which had previously been furnished to each Committee member. Mr. Evans pointed out a typographical error indicating the date of the meeting in the minutes as June 10, 1997 rather than June 10, 1996. Mr. Ricks agreed to correct the error. Mr. Allen inquired as to whether the Audit and Ethics Mandate discussed at the preceding meeting had been approved by the Corporation's Board of Directors (the "Board"). Mr. Ricks replied that a unanimous written consent to approve the Mandate had been distributed to Board members and that most members had signed the consent via facsimile. Upon motion duly made by Mr. Allen and seconded by Ms. Byrne, the Committee duly approved the minutes of such meeting as amended to correct the date of the meeting.

**Status of Code of Ethics and Financial Disclosure Statements**

Mr. Allen inquired as to the status of the distribution and review of the Code of Ethics and Financial Disclosure Statements by Board members. Mr. Ricks responded that the distribution of the form of UTIMCO Financial Disclosure and Conflicts of Interest Statement had been delayed by a review of recommendations by the State Auditor's Office concerning the form of the Statement. Many of the recommendations concerned conforming the Statement with forms of other state agencies. Mr. Ricks stated that he was trying to find a compromise that would not unduly burden the outside directors yet met the needs of public accountability.

Mr. Evans inquired as to the status of the findings of the State Auditor's Review of The University of Texas System (the "U.T. System") Investment Practices received on July 15, 1996 and which were to be the subject of a meeting on August 1, 1996 between representatives of the U.T. System, the Corporation, and the State Auditor's Office. Mr. Ricks stated that the findings addressed practices of

both the Office of Asset Management and U.T. System as far back as 1989 and prior to formation of the Corporation. Mr. Evans suggested a Committee meeting be held prior to the regular Board of Directors meeting on August 30, 1996 to discuss final findings of the State Auditor's report. Upon motion duly made by Mr. Allen and seconded by Ms. Byrne, the following resolution was unanimously adopted:

RESOLVED, that the next meeting of the Audit and Ethics Committee is called to be held at the offices of the Corporation from 9:30 a.m. to 10:30 a.m. on August 30, 1996 and that the Chairman of the Corporation be requested to reschedule the beginning of the August 30, 1996 meeting of the Board from 9:00 a.m. to 10:30 a.m.

### **Review and Approval of Proposals from Independent Accounting Firms to Serve as UTIMCO Auditor**

Mr. Ricks introduced the discussion of this item by stating that the accounting firm of Ernst & Young ("E&Y") had been selected to perform the fiscal year 1995 financial audit of the PUF as required by Section 66.08 of the Texas Education Code for a fee of \$30,000. He mentioned that the request for proposal ("RFP") process and selection of E&Y did not include the State Auditor's Office and that the State Auditor's Office had chosen to rely on E&Y's audit report on the PUF as part of its audit of the financial statements of the State of Texas for the fiscal year ended August 31, 1995.

Mr. Ricks stated the RFP process to select an auditor to review the financial statements for the fiscal year ended August 31, 1996 was undertaken in compliance with Section 66.08(f) of the Education Code. This Section requires that the U. T. System Board of Regents (the "U.T. Board") provide for an annual financial audit of the PUF and that the audit be performed by the auditors of the U. T. System and the Texas A&M University System ("TAMUS"). Since the statute did not specifically name the State Auditor's Office, Corporation and U.T. System management had concluded that rather than use the internal audit staffs of both the U.T. System and TAMUS, an independent accounting firm should be used with the TAMUS'S consent. Such consent had been received in writing from Chancellor Barry Thompson of TAMUS on July 5, 1996. Mr. Ricks further noted that Mr. Evans had requested that the financial statements of the U.T. System Short/Intermediate Term Fund and the Long Term Fund prepared in accordance with industry standards be audited for 1996 as well. Following the distribution of the RFP, the State Auditor's Office had asserted its right to approve the selection of the independent accounting firm. Following discussion with the State Auditor's Office, an agreement was reached to allow the State Auditor's Office to participate in the RFP process going forward.

Mr. Ricks stated that five responses to the RFP were received by the Corporation with KPMG being the highest bid at \$126,000. Arthur Andersen was the next highest bid at \$98,500, followed by Coopers and Lybrand at \$82,600, Deloitte & Touche at \$50,000 (+ \$5,000 expenses) and Ernst & Young at \$50,000. Review and evaluation of the proposals were made by Cathy Iberg of the Corporation, Charles Chaffin of the U.T. System Audit Office, Kerry Kennedy, U. T. System Assistant Vice Chancellor and Controller, and Lon Heuer, Internal Audit Director at U.T. Austin. The Corporation's management ranked E&Y first based upon E&Y's previous audit of the PUF, its strong

background in the investment industry and the fee. The Corporation's management however had deferred to the strong preference by representatives of U. T. System to use Deloitte & Touche - a preference based upon a greater weighting placed on government industry background.

Mr. Allen stated that it seemed logical to use E&Y given the due diligence of the last audit. He asked Mr. Ricks and Ms. Iberg if they were satisfied with E&Y's audit. At Mr. Ricks's suggestion, Ms. Iberg responded stating she was pleased with E&Y's work and knowledge in the investment area, and that the audit was conducted in a very efficient manner. However, during the RFP process, U. T. System's internal audit staff had indicated that they were dismayed with E&Y's lack of effort in developing a joint working relationship with them. U. T. System's Internal Audit staff believed that D&T would be a better choice in working with both them as well as the State Auditor's Office.

Mr. Evans stated that it is important to be able to work with the government end, especially now at the inception of the Corporation's operations. He offered that using D& T appeared to be the best choice in working together with the State Auditor's Office. Mr. Evans stated that he had a pleasant conversation with Larry Alwin of the State Auditor's Office and that Mr. Alwin seemed comfortable with the Corporation and wanted to be of any help possible.

Mr. Ricks stated that Mr. Burck, Executive Vice Chancellor for Business Affairs of the U.T. System, had informed Mr. Alwin of the selection of D&T by the U.T. System and that Mr. Alwin had concurred with the decision. Mr. Ricks also remarked that he had called Mr. Richard Lindsay at TAMUS informing him of the selection of D&T as well.

Upon motion duly made by Mr. Allen and seconded by Ms. Byrne, the following resolution was unanimously adopted:

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the Corporation and funds managed by the Corporation on behalf of the Board of Regents of The University of Texas System (the "U.T. Board") for the fiscal year ending August 31, 1996, subject to the approval of the board of directors of the Corporation and the U.T. Board.

Mr. Ricks stated that he would distribute to the Board members a unanimous written consent to the selection of D&T. He had arranged with Dr. Cunningham to have an Executive Committee Letter circulated to the U.T. Board recommending selection of D&T as well.

There being no further business to come before the Audit and Ethics Committee, the meeting was adjourned at approximately 3:35 p.m.

Approved \_\_\_\_\_  
Committee Chairman

Date: \_\_\_\_\_

