

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 8th day of November, 1996, by means of conference telephone enabling all persons participating in the meeting to hear each other, 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  
Susan M. Byrne  
Robert H. Allen

thus, constituting a majority and quorum of the Committee. Robert Allen was only able to participate in the latter part of the meeting. Also, participating in the meeting were Thomas G. Ricks, President of the University of Texas Investment Management Company (the "Corporation"), Cathy Iberg, Vice-President-Investment Operations of the Corporation, Jerry Turner, Secretary of the Corporation, William Strange CPA, representing the firm of Deloitte and Touche, and Charles Chaffin, Director of Internal Audits for The University of Texas System (the "System"). Donald L. Evans, Chairman, called the meeting to order at 10:00 a.m.

**Approval of the August 30, 1996 Minutes of the Audit and Ethics Committee**

The first matter to come before the Committee was approval of the Audit and Ethics Committee Minutes of the August 30, 1996 meeting, copies of which had previously been furnished to each Committee member. By motion duly made, seconded and carried by unanimous vote, the Audit and Ethics Committee duly approved the minutes of said meeting.

**Review of SAS 61 Letter from Deloitte and Touche**

The second item of business was the review of the SAS 61 letter presented by Mr. Strange. Mr. Strange presented the five elements contained in the letter. One element was the use of estimates in determining private equity valuations. There was a lengthy discussion regarding the process and the methodology used to determine the private investment valuations. (During this discussion, Mr. Allen joined the conference call.) The Committee requested that the Corporation's staff provide a list of the private equity securities and the valuation methodology for each private equity investment at the next meeting of the Corporation's board of directors. No other discussion ensued concerning the SAS 61 letter.

**Communication of Comments to Management from Deloitte and Touche**

The third item to come before the Committee was the communication of the independent auditor's comments to management concerning certain matters and observations noted during the audit. Mr. Strange led this discussion. There was a lengthy discussion regarding the second and last item listed on the letter under the heading "Custodial Accounting" concerning a clerical error made by the custodian in the posting of a dividend payment. The discussion centered around the income and reconciliation processes employed by the Corporation. As of the date of the meeting, the Corporation's staff had not

received a formal written response regarding the error from the Fund's custodian, Mellon Trust. Mr. Ricks reported that a formal written response had been requested from Mellon Trust.

### **Explanation of Audit Opinion Issued by Deloitte and Touche**

The fourth item to come before the Committee was the explanation of the audit opinions issued by Deloitte and Touche on the financial statements of the three major investment funds and the Corporation. Mr. Strange explained that all the opinions issued were unqualified. Mr. Strange explained the PUF opinion in detail due to its unique nature. Following this explanation there was a lengthy discussion concerning the exclusion of the PUF lands from the audit. Mr. Evans, as a System Regent, stated he would bring the issue of an external audit of PUF lands to the System Board since it was not within the Corporation's mandate.

In conclusion Mr. Ricks indicated that the PUF Investment Report for the year ended August 31, 1996 was scheduled to be approved by the System Board on November 14, 1996. (This report was subsequently approved at that meeting.)

### **Executive Session**

At the request of Mr. Evans, Messrs. Ricks and Chaffin and Ms. Iberg disconnected from the conference call in order to allow the Committee to discuss the report without Corporation staff participation. Committee members then asked Mr. Strange questions concerning the level of cooperation from Corporation staff in the audit process, the quality of work by the Corporation's accounting staff and the quality of the Corporation's computer capability. The Committee also discussed with Mr. Strange the methodology used to determine private equity valuations.

### **Approval of Draft Financial Reports**

Upon motion duly made and seconded, the Committee unanimously voted to approve the draft Independent Auditor's Reports and accompanying Financial Statements of the Corporation and the System's Long Term and Short/Intermediate Term Funds and the Financial Statements related to the Investment Assets and Liabilities of the Permanent University Fund for the year ended August 31, 1996, all as presented by Mr. Strange.

There being no further business to come before the Audit and Ethics Committee, the meeting was adjourned at approximately 11:10 a.m.

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Committee Chairman