



The Role of the System Audit Office at UTIMCO

Background of UTIMCO

The University of Texas Investment Management Company (UTIMCO) is a 501(c)(3) investment management corporation whose sole purpose is the management of investment assets under the fiduciary care of the Board of Regents of The University of Texas System (UT Board).

Created in March 1996, UTIMCO is the first external investment corporation formed by a public university system. It invests endowment and operating funds in excess of \$17.3 billion, including the Permanent University Fund, the Permanent Health Fund, the Long Term Fund, the General Endowment Fund, the Short Intermediate Term Fund, the Short Term Fund, Separately Invested Funds, and the Institutional Index Funds.

UTIMCO is governed by a nine-member Board of Directors appointed by the UT Board. The UTIMCO Board of Directors includes three members of the UT Board, the Chancellor of The University of Texas System, and five outside investment professionals, including one representative from the Texas A&M System.

The UT Board delegates investment management responsibility to UTIMCO subject to compliance with UT Board approved investment policies. Day-to-day management of funds is further delegated to UTIMCO management, which provides a comprehensive range of investment management services. UTIMCO staff includes investment professionals, accountants, information technology specialists, operations and administrative personnel, all of whom work together to provide total investment support.

Overall Role of System Audit Office

The University of Texas System (UT System) Audit Office provides an independent internal audit appraisal function established within UT System to examine and evaluate its activities as a service to the UT Board, the Chancellor, and the Executive Staff of the UT System.

The mission of the UT System Audit Office includes the following elements:

- To provide to management and the UT Board independent, objective evaluations of the operations, policies, procedures, and controls at UT System Administration.
- To provide to the internal audit departments of mid-size and small campuses supplemental assistance and resources so that they can provide management and the UT Board with independent, objective evaluations of their operations, policies, procedures, and controls.
- To provide for UT System management and the UT Board oversight of all internal audit departments in the UT System to assure that an effective internal audit function which includes a risk based annual and long-range audit plan, a reporting mechanism, and a quality assurance program, is in place system-wide.



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Historically, UTIMCO has never employed an internal auditor who provided independent services. The UT System Audit Office has performed periodic internal audits (e.g., investment management fees and general computer controls) and testing for UTIMCO's external auditors to reduce the scope of their procedures on the external audits of the funds. Internal audit reports issued by the UT System Audit Office have been provided to and discussed with the UTIMCO Audit and Ethics Committee.

In fiscal year 2005, the UT System Audit Office performed procedures surrounding implementation of the *Sarbanes-Oxley Act* (Act). The procedures include reading controls narratives prepared by management, verifying the accuracy and completeness of the narratives with staff, testing controls identified, and reporting deficiencies in our testing. This work may be used by UTIMCO's external auditors to reduce the scope of their testing of UTIMCO's internal controls for the annual audits of the Corporation and the Funds and for opinions on internal control under the Act.

UTIMCO's Audit and Ethics Committee Charter

UTIMCO's Audit and Ethics Committee Charter includes the following language:

The Corporation (UTIMCO) utilizes the UT System Internal Audit Department to perform internal audit functions hereunder with respect to the Corporation and investment funds and report directly to the Committee. The Committee has the following duties and responsibilities with respect to internal audit:

- Review the independence, qualifications, activities, resources and structure of the internal audit function;
- Ensure that significant findings and recommendations made by the internal auditors and management's proposed responses are received, discussed and appropriately acted on;
- Review the proposed internal audit plan for the coming year and ensure that it addresses key areas of risk and that there is appropriate coordination with the external auditor;
- Review completed internal audits and the status of management's implementing related recommendations; and
- Receive a progress report on the internal audit plan with explanations for any deviations from the original plan.

Conclusion

Given that the mission of the UT System Audit Office is to provide internal audit resources to other UT System institutions and that the dual role of reporting to the UT Board and UTIMCO's Audit and Ethics Committee is consistent with the stated mission, the UT System Audit Office performs a similar function at UTIMCO.