



OFFICE OF INTERNAL AUDITS
THE UNIVERSITY OF TEXAS AT AUSTIN

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MEMORANDUM

To: Dr. Gregory L. Fenves, President
The University of Texas at Austin

From: Ms. Sandy S. Jansen, CIA, CCSA, CRMA *Sandy S. Jansen*
Chief Audit Executive

Subject: School of Law Facilities Investigation, Project #17.413

Date: September 13, 2019

We have completed our investigation of alleged financial improprieties by a former facilities director (director) at The University of Texas at Austin School of Law (School of Law). This investigation began after the School of Law's chief business officer (CBO) and dean notified us of significant payments to one vendor to cover moving services and of concerns related to vendors with apparent close relationships with the director. The initial objective of the investigation was to determine whether concerns related to the moving service expenses and payments to other vendors could be substantiated. The work expanded to include the director's purchasing activities, travel reimbursements, and time reporting.

Concurrent to our investigation, The University of Texas at Austin (UT) commissioned an outside law firm to conduct an investigation into the issues and actions of the director. Also, the Travis County District Attorney's Office (TCDA) and the Texas Rangers are conducting a criminal investigation. In May 2018, the director was arrested on six counts of tampering with government records. In December 2018, additional felony charges were filed for theft of property and abuse of official capacity. Our office has provided support to the TCDA, the Texas Rangers, and the outside law firm, as needed.

To complete the objectives, our office:

- analyzed contract and payment documentation for moving services
- reviewed emails by the director
- reviewed expenditures by the director
- compiled databases of payments to vendors
- identified sources of funds used for payments
- reviewed human resources and employment records
- researched relevant policies and procedures
- interviewed staff from the School of Law, Project Management and Construction Services, and Procurement and Payment Services

Conclusion

Based on procedures performed, concerns were substantiated, including suspected theft of UT property and personal purchases utilizing School of Law accounts. Also, there were financial losses because of an elaborate pattern of payments to the director from outside vendors for work purportedly done at UT. Additionally, these outside vendors received a considerable markup for the payments from UT, as directed by the director.

The university's loss was \$1,566,281, as substantiated by the outside law firm and verified by our office.

There are 17 recommendations to the School of Law, Procurement and Payment Services, and Project Management and Construction Services (PMCS) to strengthen controls. A summary of additional observations and recommended improvements from the outside law firm is in Appendix B.

In addition to the recommendations, our office will strengthen fraud prevention and detection efforts across campus and promote the avenues for reporting suspected fraud, waste, and abuse. The Handbook of Operating Procedures 3-1021, *Suspected Dishonest or Fraudulent Activities* (UT Fraud Policy) will be updated to include enhancements to fraud awareness, emphasize deterrents to fraudulent activities, and highlight the red flags of fraud to help prevent this type of activity in the future.

Background

On July 24, 2017, the School of Law's CBO contacted the Office of Internal Audits (Internal Audits) with concerns about financial impropriety involving the director. The CBO was concerned about significant payments to one company for moving services dating back to 2014. Although the School of Law went through a large maintenance event and should have had expenses related to a large number of office moves, the CBO indicated these payments were about \$700,000 above estimated amounts. In addition, the CBO specified a list of additional vendors who had suspected questionable relationships with the director. For these vendors, the director cumulatively charged \$82,000 on School of Law procurement cards (ProCards) during June and July 2017.

After initial concerns were investigated and substantiated, the director was placed on an alternative work assignment on July 28, 2017. His UT staff ID and keys were collected, and he was directed to stay off campus until further notification. On November 2, 2017, the director resigned.

School of Law Statement

The incidents discussed in the audit report involved the misconduct of an employee. The School of Law considers the misconduct, and its consequences, a very serious matter. We agree that the audit recommendations and responses are appropriate. Some of the responsive actions we are taking would (or might) have stopped the misconduct if they had been taken earlier. We believe

that the director was aware of the rules that he violated. We do not think his misconduct reflects a failure to educate him, and we would not wish our responses to leave that impression.

Many of the steps in our responses nevertheless amount to improvements in education. We believe they are steps worth taking to address an essential overall issue: maintaining and fortifying a scrupulous culture within the school. We will be considering additional and broader measures as well (e.g., formal compliance, education, or monitoring programs).

All actions in the report are valuable and important, but we believe it is incumbent on us at the School of Law to go further in ensuring that everyone here stays in full compliance with rules and regulations and that nothing of this kind happens again.

Audit Results (Summarized)

The recommendations are summarized below. See Appendix A for detailed control weaknesses, criteria, recommendations, and management responses. See Appendix C for definitions of Audit Issue Rankings.

Nine recommendations were directed to the School of Law:

LS1.	Ensure employees do not engage vendors without PMCS approval. Audit Issue Ranking: High Status of Audit Recommendation: Implemented, but not verified.
LS2.	Ensure purchasing duties are separated and provide assurance that improprieties are prevented and detected. Audit Issue Ranking: High Status of Audit Recommendation: Implemented, but not verified.
LS3.	Ensure employees receive training on procurement card (ProCard) policies and guidelines and restrict ProCard usage when violations occur. Audit Issue Ranking: High Status of Audit Recommendation: Implemented, but not verified.
LS4.	Establish monitoring controls to ensure employees submit weekly time reports. Audit Issue Ranking: High Status of Audit Recommendation: Implemented, but not verified.
LS5.	Establish controls to ensure travel expenses align with UT travel policies and are in support of official university business. Audit Issue Ranking: High Status of Audit Recommendation: Implemented, but not verified.
LS6.	Ensure employees are aware of and complete financial disclosures and conflict of interest statements. Audit Issue Ranking: High Status of Audit Recommendation: Implemented, but not verified.

LS7.	Ensure employees are aware of reporting requirements when involved in a consensual relationship. Audit Issue Ranking: High Status of Audit Recommendation: Implemented, but not verified.
LS8.	Validate education credentials and work experience for employment candidates. Audit Issue Ranking: High Status of Audit Recommendation: Implemented, but not verified.
LS9.	Educate staff about prohibitions on political activity. Audit Issue Ranking: Medium Status of Audit Recommendation: Implemented, but not verified.

Four recommendations were directed to Procurement and Payment Services:

PP1.	Ensure final approvers confirm that signatures on supporting documentation are from employees of the department requesting payment. Audit Issue Ranking: Priority Status of Audit Recommendation: Implemented, but not verified.
PP2.	Require documentation confirming completion and warranted payment for PMCS projects. Audit Issue Ranking: Priority Status of Audit Recommendation: Implemented, but not verified.
PP3.	Expand staff and detective controls for ProCard use. Audit Issue Ranking: Priority Status of Audit Recommendation: In progress.
PP4.	Expand detective and preventive controls for ProCard use. Audit Issue Ranking: Priority Status of Audit Recommendation: In progress.

Four recommendations were directed to PMCS:

PM1.	Ensure scope of work and cost proposals are provided in detail for each Job Order Contract. Audit Issue Ranking: Priority Status of Audit Recommendation: Implemented, but not verified.
PM2.	Ensure satisfactory completion of projects is verified and documented before signing the Notice of Substantial Completion and submitting the Pay Application forms to Business and Financial Services.

	Audit Issue Ranking: Priority Status of Audit Recommendation: Implemented, but not verified.
PM3.	Ensure only PMCS employees sign pay documents and forms receive supervisory review. Audit Issue Ranking: Priority Status of Audit Recommendation: Implemented, but not verified.
PM4.	Obtain delegated signature authority for the PMCS director. Audit Issue Ranking: Priority Status of Audit Recommendation: Implemented.

We appreciate the time and cooperation of the staff members during this investigation. Our office will conduct follow-up procedures to confirm implementation of management's corrective action plans. Please contact Jeff D. Treichel or me at 512-471-7117 with any questions.

SJ:jdt

cc: Mr. James Davis, Vice President for Legal Affairs
Mr. Darrell Bazzell, Senior Vice President and CFO
Mr. Ward Farnsworth, Dean, School of Law
Mr. Carlos Martinez, Chief of Staff, Office of the President
Dr. Maurie McInnis, Executive Vice President and Provost
Ms. Liz Yant, Chair, Institutional Audit Committee

Appendix A: Audit Results (Full Details)

Internal Audits issued 17 recommendations to strengthen internal controls across campus. Internal control weaknesses were identified in three departments including the School of Law, Procurement and Payment Services, and PMCS. Most of the recommendations have been implemented by the respective department, and the remaining recommendations have planned implementation dates in summer 2019.

Nine recommendations were directed to the School of Law:

LS1.	<p><u>Control Weakness:</u> The director exercised significant discretion and engaged vendors to renovate (e.g., offices and classrooms), repair (e.g., roof), and construct (e.g., deck) at School of Law facilities without prior approvals from Planning, Energy, & Facilities (PEF), the parent organization of PMCS. Numerous hired companies were owned by friends and associates of the director.</p> <p><u>Criteria:</u> Section 4-1030 of UT’s <i>Handbook of Operating Procedures</i> states, “As delegated by the president, Planning, Energy & Facilities (PEF) is responsible for...design and construction, directly or by means of a contract, for all renovation, repair, and remodeling of existing University-owned structures... All design and construction work must follow standards published by PMCS and other codes and requirements as deemed necessary. All projects of this type must be initiated by request of the department head to the PMCS department.”</p> <p>Section 7.7.10.A of UT’s <i>Handbook of Business Procedures</i> states, “All repair, remodeling, or renovations to University of Texas at Austin property must be reviewed by PMCS before the Purchasing Office can process a requisition for this type of work. Even minor construction jobs may require project coordination, permitting, bonding, or an increased level of insurance for onsite work.”</p> <p>Section 7.2.B of UT’s <i>Handbook of Business Procedures</i> states, “To expedite purchasing functions, university business officers are authorized by the university to approve small purchase orders up to \$15,000. With this authorization comes the responsibility of business officers to comply with UT System’s Ethics, all established purchasing policies of The University of Texas at Austin, established purchasing program procedures, and any other requirements as determined by the primary procurement officer.”</p> <p><u>Recommendation:</u> Management should establish internal controls to ensure employees do not engage vendors without prior approvals from PEF.</p>
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Management Response:

1. Since at least August 2017, the School of Law has had (and will continue to have) all remodel projects approved and coordinated through UT PMCS. All School of Law remodel projects require the prior written approval of at least two School of Law representatives (dean, associate/assistant dean, facilities director, CBO). Also, repairs and maintenance are performed by School of Law facilities staff or are referred to UT Facilities Zone maintenance. No outside companies have been, or will be used directly by the School of Law for projects or repairs.
2. Beginning in April 2018, the Dean's Office annually educates all staff responsible for making purchases of UT's purchasing ethics policy, Handbook of Business Procedures (HBP) 7.3, including awareness of conflicts of interest, gifts, and self-dealing, purchases from/by employees, and benefits for performing official duties. The School of Law requires staff to familiarize themselves with UT and State of Texas purchasing policies. The School of Law educates staff on and enforces the policy that ProCards may not be used for repairs, remodeling, or renovations. Annual reminders of these policies will be sent out at the beginning of each school year.
3. The Dean's Office sent a reminder in April 2018 to all School of Law personnel of the policy that purchase orders may not be processed after purchase or service has been rendered. They must be requested in advance. Annual reminders of this policy will be sent out at the beginning of each school year.
4. The new School of Law facilities director is expected to work with the School of Law CBO to produce and manage an annual operating budget to include costs for day-to-day building operations and maintenance. Material variances from the overall budget will need prior approval. The new facilities director, CBO, and PMCS have been having regular status meetings since August 2017. Topics include project updates, progress, and funding/budget standing.
5. Employees currently handling these duties have been apprised (since August 2017) of the required policies and our updated procedures. Failure of the facilities director/manager(s) to adhere to these policies will lead to disciplinary action up to and including termination.

Internal Audits Comment:

Implemented, but not verified.

LS2.	<p><u>Control Weakness:</u> The director initiated and processed a number of large contracts (e.g., \$1.6 million with one moving company over 3 years), with limited oversight.</p> <p><u>Criteria:</u> The University of Texas Purchasing Voucher Checklist states, “As employees of The University of Texas at Austin it is our responsibility to safeguard the funds entrusted to us by ensuring that all payments are for legitimate expenses that benefit the University.”</p> <p>The University of Texas System Policy UTS118 states, “Management shall establish and maintain a system of internal control that provides reasonable assurance that improprieties are prevented and detected. Each manager must be familiar with the types of improprieties that might occur in his or her area and be alert for any indication that such a defalcation, misappropriation, or other fiscal irregularity has occurred.”</p> <p><u>Recommendation:</u> Management should establish and maintain internal controls to ensure purchasing duties are separated and provide assurance that improprieties are prevented and detected, i.e., having two individuals approve scope of work and monitor completion.</p> <p><u>Management Response:</u></p> <ol style="list-style-type: none">1. Since at least August 2017, the School of Law has had (and will continue to have) all remodel projects approved and coordinated through UT PMCS. All School of Law remodel projects now require the prior written approval of at least two School of Law representatives (dean, associate/assistant dean, facilities director, CBO). Also, repairs and maintenance are performed by School of Law facilities staff or are referred to UT Facilities Zone maintenance. No outside companies have been, or will be used directly by the School of Law for remodel projects or repairs.2. Beginning in April 2018, the Dean’s Office annually educates all staff responsible for making purchases of UT’s purchasing ethics policy, Handbook of Business Procedures (HBP) 7.3, including awareness of conflicts of interest, gifts, and self-dealing, purchases from/by employees, and benefits for performing official duties. The School of Law requires staff to familiarize themselves with UT and State of Texas purchasing policies. The School of Law annually reminds staff on and enforces the policy that ProCards may <u>not</u> be used for repairs, remodeling, or renovations. Annual reminders of these policies will be sent at the beginning of each school year.3. In April 2018, the Dean’s Office sent a reminder to all School of Law personnel of the policy that purchase orders may not be processed after
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	<p>purchase or service has been rendered. They must be requested in advance. Annual reminders of this policy will be sent out at the beginning of each school year.</p> <p>4. The new School of Law facilities director is expected to work with the School of Law CBO to produce and manage an annual operating budget to include costs for day-to-day building operations and maintenance. Material variances from the overall budget will need prior approval. The new facilities director, CBO, and PMCS have been having regular status meetings since August 2017. Topics include project updates, progress, and funding/budget standing.</p> <p>5. Employees currently handling these duties have been apprised (since August 2017) of the required policies and our updated procedures. Failure of the facilities director/manager(s) to adhere to these policies will lead to disciplinary action up to and including termination.</p> <p>6. Since August 2017, payments/transfers to PMCS need the prior written approval of at least two School of Law representatives (dean, associate/assistant dean, facilities director, CBO). The School of Law is working with PMCS to make sure they are looking for this level of approval before commencing any project work.</p> <p><u>Internal Audits Comment:</u> Implemented, but not verified.</p>
LS3.	<p><u>Control Weakness:</u> The director violated UT purchasing policies by:</p> <ul style="list-style-type: none">• Using ProCards to pay vendors who were possible friends and associates• Emailing photos of ProCards to vendors for School of Law purchases• Not providing timely receipts• Not justifying reason for the use of ProCard, i.e., questionable services• Repeatedly paying for questionable services under the \$4,500 maximum limit• Splitting payments to vendors to stay under ProCard threshold• Not having a second party vouch for services received• Duplicating payments <p><u>Criteria:</u> The UT Policies and Guidelines of ProCard usage states, “Access to the procurement card should be carefully controlled and all charges on the procurement card should be reconciled promptly to ensure all charges are</p>

	<p>legitimate. Any questionable activity, or lost or theft of the procurement card, must be reported to the Procurement Card Administrator immediately.”</p> <p>The University of Texas Purchasing Office Voucher Checklist states, “As employees of The University of Texas at Austin it is our responsibility to safeguard the funds entrusted to us by ensuring that all payments are for legitimate expenses that benefit the University...we are to guard against duplicate payments, inappropriate payments and report any attempt to defraud the University to the proper authorities.”</p> <p><u>Recommendation:</u> Management should ensure employees receive training on ProCard policies and guidelines, and ProCard usage is restricted when violations occur.</p> <p><u>Management Response:</u> In April 2018, the School of Law sent a reminder to all ProCard holders/users about ProCard usage rules and will send out annual reminders at the beginning of each school year. Reminders will include:</p> <ul style="list-style-type: none">• engaging vendors who are friends is disallowed• emailing ProCard numbers or photos of ProCard numbers is forbidden• monitoring usage of the card, including questionable purchases, vague invoices, and repeated charges just under authorized limits is required• submitting receipts timely each month is required• repeated offenses will result in cancelled ProCards and/or access to them <p><u>Internal Audits Comment:</u> Implemented, but not verified.</p>
LS4.	<p><u>Control Weakness:</u> The director did not submit official time reports from April 4, 2016, through July 23, 2017. Although the director submitted time reports between May 1, 2014, through April 3, 2016, when the reporting lines changed to the dean on April 4, 2016, the director discontinued this practice.</p> <p><u>Criteria:</u> Section 5-4020 of UT’s <i>Handbook of Operating Procedures</i> states, “University policy requires that "Official Time Reports" form (PO-6) be prepared and maintained on all classified employees, Code 1000 titles, Professional Librarians, Academic Assistants, and Tutors. The report must be completed on a weekly basis and signed by the employee's supervisor.”</p> <p>Section 5-2340 of UT’s <i>Handbook of Operating Procedures</i> states, “Supervisors are responsible for observing the attendance, performance, and behavior of the employees they supervise.”</p>

	<p><u>Recommendation:</u> Management should establish internal controls to ensure employees submit weekly time reports.</p> <p><u>Management Response:</u></p> <ol style="list-style-type: none">1. In April 2018, all employees were notified of the need for timesheet submission and will be sent an annual reminder at the beginning of each new school year.2. In April 2018, employees who were not up-to-date on timesheet submissions were notified of the need to submit timesheets on a weekly basis. Starting August 2019, monthly reminders will be sent to employees who are not up-to-date on submissions. <p><u>Internal Audits Comment:</u> Implemented, but not verified.</p>
LS5.	<p><u>Control Weakness:</u> For the two trips the director took while employed by the School of Law, he was reimbursed for travel expenses in excess of State and UT mandated amounts. Based on the director's travel voucher documents, some of which were falsified, the reimbursements constitute inappropriate payments.</p> <p><u>Criteria:</u> Section 3-1210 of UT's <i>Handbook of Operating Procedures</i> states, "All travel shall be planned to achieve maximum economy and efficiency and to ensure that expenses for transportation, meals, lodging and incidental items are the lowest possible considering all relevant circumstances... Travel expenses may be reimbursed only when the travel is clearly for the conduct of official University business."</p> <p>Section 3-2020-PM of UT's <i>Handbook of Operating Procedures</i> states, "Accordingly, expenditures made from all University accounts, including gift accounts, chairs, professorships, and other endowment income accounts, must be for official University business."</p> <p>Section 11.5.C of UT's <i>Handbook of Business Procedures</i> states, "The travel expenses must be the lowest possible considering all relevant circumstances." Section 11.5.E.2 states, "Local accounts are limited to a combination of actual meal and lodging expenses not to exceed \$375 per day."</p> <p>The UT Purchasing Office Voucher Checklist states, "As employees of The University of Texas at Austin it is our responsibility to safeguard the funds entrusted to us by ensuring that all payments are for legitimate expenses that</p>

	<p>benefit the University...we are to guard against duplicate payments, inappropriate payments and report any attempt to defraud the University to the proper authorities.”</p> <p><u>Recommendation:</u> Management should establish internal controls to ensure travel expenses align with UT travel policies and are in support of official University business.</p> <p><u>Management Response:</u> Although the School of Law accounting staff asked the employee why his travel exceeded normally authorized amounts, he gave a credible answer that would justify paying over normal limits. To strengthen controls, the School of Law will provide annual reminders on travel rules, which began in April 2018. Going forward, the reminders will be sent at the beginning of each school year.</p> <p><u>Internal Audits Comment:</u> Implemented, but not verified.</p>
LS6.	<p><u>Control Weakness:</u> The director operated a side business and did not complete an annual financial disclosure or conflict of interest statement.</p> <p><u>Criteria:</u> Section 5-2010 of UT’s <i>Handbook of Operating Procedures</i> states, “An employee must file timely written disclosure statements as required by law, rule, or policy. An employee's position with The University of Texas at Austin, relationship with other employees, contemplated activity, etc. will determine which disclosure statements, if any, are required. Some pertinent examples include: (1) if an employee's spouse is employed by the University it must be disclosed under the Nepotism Policy. (2) If an employee is in a position to make decisions or exercise significant discretion over whether the University enters into a contract or agreement, he or she must annually complete the University's Financial Disclosure and Conflicts of Interest Statement.”</p> <p><u>Recommendation:</u> Management should ensure employees are aware of and complete financial disclosures and conflict of interest statements.</p> <p><u>Management Response:</u> The School of Law sent a reminder in April 2018 about the need to file timely written disclosure of conflict of interest statements. Annual reminders will be sent out at the beginning of each school year.</p> <p><u>Internal Audits Comment:</u> Implemented, but not verified.</p>

LS7.	<p><u>Control Weakness:</u> The director hired and travelled with employees he managed (temporary and full-time), with whom he had a consensual relationship, and he did not report the relationship to the dean.</p> <p><u>Criteria:</u> Section 3-3050 of UT’s <i>Handbook of Operating Procedures</i> states:</p> <ol style="list-style-type: none">1. “Considering the potential for exploitation or the appearance of exploitation or favoritism and the inherent differential in authority, the University prohibits consensual relationships between employees (including faculty) and/or affiliates where one teaches, manages, supervises, advises, or evaluates the other in any way unless the person in the position of greater authority or power notifies appropriate University offices (as detailed in Section VII.B.2.a of this policy) and a mitigation plan is put in place that mitigates the conflict of interest and the potential for exploitation or the appearance of exploitation or favoritism.2. In the event a consensual relationship exists between employees (including faculty) and/or affiliates, the following steps must immediately be followed by the person in the position of greater authority or power:<ol style="list-style-type: none">a. report the consensual relationship to the appropriate dean and the EVPP (when the relationship involves a faculty member), and/or the appropriate unit head and HR (when the relationship involves a staff member and/or affiliate);b. report any relationship that currently exists prior to the effective date of this policy to the University offices specified above as soon as possible and cooperate in the development of a mitigation plan as outlined in Section VII.C, below;c. cooperate in the development of a mitigation plan designed to reduce or eliminate the conflict of interest and the potential for exploitation or the appearance of exploitation or favoritism.” <p>The University of Texas System Policy UTS184 states, “A consensual sexual relationship, romantic relationship, or dating between a university supervisor and supervisee (as defined below and includes such a relationship between a faculty member and a student), regardless of whether the supervisory relationship is direct or indirect, is prohibited unless the relationship has been reported in advance and a plan to manage the conflict inherent in the relationship has been approved and documented. Such relationships are prohibited even if only a single event. If managing the conflict is not possible, the relationship is prohibited.”</p>
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	<p><u>Recommendation:</u> Management should ensure employees are aware of reporting requirements when involved in a consensual relationship.</p> <p><u>Management Response:</u> In April 2018, the School of Law sent a notification to staff about the need to file timely written disclosure of any consensual relationship that would constitute a conflict of interest per UT HOP 3-3050. Annual reminders will be sent out at the beginning of each school year.</p> <p><u>Internal Audits Comment:</u> Implemented, but not verified.</p>
LS8.	<p><u>Control Weakness:</u> The director submitted a resume with falsified educational credentials and questionable work experience.</p> <p><u>Criteria:</u> Human Resources' best practices recommend submitting a Background Check Request for Education and Employment Verification form (https://hr.utexas.edu/sites/hr.utexas.edu/files/background_check_authorization.pdf). The <i>Texas Penal Code</i> § 32.52 states that a person commits a Class B misdemeanor if they claim to hold a fraudulent postsecondary degree with the intent to obtain employment.</p> <p><u>Recommendation:</u> School of Law management should conduct validations of educational credentials and work experience on candidates for employment.</p> <p><u>Management Response:</u> Since April 2018, the School of Law has enacted a policy to verify educational credentials and work experience of all new School of Law employees at manager and above levels.</p> <p><u>Internal Audits Comment:</u> Implemented, but not verified.</p>
LS9.	<p><u>Control Weakness:</u> The director campaigned for and held the position of City Councilman in a local municipality during his tenure at the School of Law.</p> <p><u>Criteria:</u> Section 5-2020 of UT's <i>Handbook of Operating Procedures</i> states, "No</p>

	<p>employee in the classified service of the University shall become a candidate for or hold any federal, state, county, or municipal elective office.”</p> <p><u>Recommendation:</u> Management should ensure employees are aware of prohibitions on political activity.</p> <p><u>Management Response:</u> In April 2018, the School of Law sent a reminder to all employees about the prohibition on political activity per UT’s HOP 5-2020. Annual reminders will be sent out at the beginning of each school year.</p> <p><u>Internal Audits Comment:</u> Implemented, but not verified.</p>
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Four recommendations were directed to Procurement and Payment Services:

PP1.	<p><u>Control Weakness:</u> Accounts Payable personnel approved payments based on source documents with invalid signatures.</p> <p><u>Criteria:</u> The University of Texas System Policy UTS118 states, “Management shall establish and maintain a system of internal control that provides reasonable assurance that improprieties are prevented and detected. Each manager must be familiar with the types of improprieties that might occur in his or her area and be alert for any indication that such a defalcation, misappropriation, or other fiscal irregularity has occurred.”</p> <p><u>Recommendation:</u> Management should ensure final approvers confirm that signatures on supporting documentation are from employees of the department requesting payment.</p> <p><u>Management Response:</u> On October 18, 2017, Accounts Payable staff received instructions to verify the manual signatures listed on lower left side of the ‘Application and Certification for Payment – Project Management & Construction Services’ form are all from PMCS employees and not from another department. Only PMCS employees should sign this form. To verify manual signers are from PMCS, Accounts Payable staff are to search by the printed name listed below the signatures on the form in the UT Directory to verify department name to be PMCS.</p>
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	<p><u>Internal Audits Comment:</u> Implemented, but not verified.</p>
PP2.	<p><u>Control Weakness:</u> Eight payments totaling \$859,000 were approved with limited source documents confirming completion of work.</p> <p><u>Criteria:</u> The Office of the Senior Vice President and Chief Financial Officer’s website states, “Accounts Payable requires the following documentation: 1) itemized invoice with a goods/services received stamp which includes the signature of person receiving the goods/service and an invoice received date stamp, 2) if not procured on a purchase order, also provide a copy of a signed fully executed contract.” The University of Texas System Policy UTS118 states, “Management shall establish and maintain a system of internal control that provides reasonable assurance that improprieties are prevented and detected. Each manager must be familiar with the types of improprieties that might occur in his or her area and be alert for any indication that such a defalcation, misappropriation, or other fiscal irregularity has occurred.”</p> <p><u>Recommendation:</u> Management should establish internal controls to require documentation that confirms the completion and warranted payment of PMCS projects.</p> <p><u>Management Response:</u> Management for Procurement, Contracts, HUB and Payment Services will meet with PMCS management in early January 2018 to discuss the requirement of all supporting documentation to be included with each payment request.</p> <p><u>Internal Audits Comment:</u> Implemented, but not verified. New procedures for Construction Contract Closeout Deliverables and Application and Certificate for Payment Routing Process were developed and implemented in summer 2018.</p>
PP3.	<p><u>Control Weakness:</u> A UT employee was using colleagues’ ProCards to make questionable purchases. Current staffing and monitoring practices of the ProCard program are inadequate to mitigate risks of procurement card misuse and abuse.</p> <p><u>Criteria:</u> The University of Texas System Policy UTS118 states, “Management shall establish and maintain a system of internal control that provides reasonable assurance that improprieties are prevented and detected. Each manager must be familiar with the types of improprieties that might occur in his or her area and be alert for any indication that such a defalcation, misappropriation, or other</p>

	<p>fiscal irregularity has occurred.”</p> <p><u>Recommendation:</u></p> <p>3-1. Management should assign additional staff to ensure there are sufficient resources available for timely ProCard monitoring.</p> <p>3-2. Management should develop detective controls using continuous monitoring, data analytics, and oversight practices to review for:</p> <ul style="list-style-type: none"> • repeated purchases just under the \$4,500 purchase limit • prohibited expenditures, by checking available level 2 and 3 purchase data • reasons for declined authorizations, especially repeated declines • potential split transactions • inventory items • state sales tax charged • personal purchases • disputed transactions • late voucher approvals • statements over \$25,000 <p>In addition, management should conduct spot audits of monthly ProCard voucher submissions checking for complete receipts, logs, signatures, Specially Designated Nationals (SDN), and vendor taxpayer status verifications.</p> <p><u>Management Response:</u></p> <p>3-1. Procurement transitioned an existing part-time position that performs post payment audits for Payment Services to assist in the backlog. More resources may be added based on recommendations from the Procard work team referenced in section 4 [Item PP4].</p> <p>3-2. Procurement leadership intends to use one-time funds available to contract with an independent contractor that has education and experience in purchasing card audits along with knowledge surrounding ProCard controls, risk mitigation, and compliance monitoring. The intent is to start using Citibank tools which will allow ProCard staff to be compliant with audit recommendations.</p> <p><u>Internal Audits Comment:</u> Action is in progress.</p>
PP4.	<p><u>Control Weakness:</u> ProCard program policies are not sufficient to mitigate risks of misuse and abuse. ProCard policy insufficiencies include:</p> <ul style="list-style-type: none"> • consequences for non-compliance are not defined

- imaging of monthly vouchers is not required
- use of third-party payment processors is not controlled
- departmental controls are not required to be documented
- cancelled ProCards are not returned or verified as destroyed
- roles and responsibilities are not clearly defined
- a policy on missing receipts does not exist
- training is not adequate

Criteria:

The University of Texas System Policy UTS118 states, “Management shall establish and maintain a system of internal control that provides reasonable assurance that improprieties are prevented and detected. Each manager must be

familiar with the types of improprieties that might occur in his or her area and be alert for any indication that such a defalcation, misappropriation, or other fiscal irregularity has occurred.”

Recommendation:

Management should ensure that detective and preventive controls are expanded by:

4-1. Establishing a documented policy on progressive disciplinary measures for noncompliance and enforcing it consistently.

Examples of non-compliance include:

- missing or incomplete logs
- not supplying itemized receipts
- payment voucher not approved by due date
- missing or incomplete reconciliation
- use of card for personal or unauthorized purchases
- attempting to circumvent transaction limit by splitting payments
- failure to confirm vendor status for purchase over \$500
- failure to secure ProCard
- failure to report fraud
- failure to report a lost or stolen card
- use by someone other than an approved cardholder
- shipping goods to personal residence

4-2. Establishing a policy requiring ProCard holders to submit complete ProCard documentation monthly to Imaging and Documentation Services.

4-3. Establishing a policy regarding the use of third-party payment processors (3PPs). Specifically, consider blocking Merchant Category Codes for high risk 3PPs such as Square, Inc. and PayPal and have cardholders request exceptions on a case-by-case basis via an authorization form. For exceptions granted,

itemized documentation for purchases made via 3PPs should be required.

4-4. Establishing a policy that requires departments to document their ProCard control environment, to include approvals, adjustments, record keeping, reporting, reconciliations, segregation of ProCard duties, and supervision, and provide upon request.

4-5. Establishing a policy that requires a cancelled ProCard to be either physically returned to the ProCard administrator or verified as destroyed by confirmation of a destruction form signed by the department head.

4-6. Establishing a policy that requires a statement of missing receipt be filed each time a cardholder is unable to provide vendor documentation for a purchase. The form should require purchaser and supervisor signatures and should only be used on rare occasions. Excessive use of the form should result in revocation of the ProCard.

4-7. Developing a robust, monthly compliance training program that requires attendance before issuing a ProCard and providing refresher courses at three-year intervals. Training should be tracked and reminders sent to cardholders.

4-8. Establishing a policy that requires ProCard holders to sign a cardholder usage agreement before receiving their cards, agreeing to abide by policies and ethics rules regarding purchasing.

4-9. Establishing a policy requirement that ProCard users, other than cardholders, must become approved users by signing an employee, or non-cardholder, usage agreement, and file a copy with the ProCard administrator before using a ProCard.

Management Response:

4-1. Policy now includes progressive disciplinary measures for noncompliance. Additionally, training and other guidelines may be established and implemented as part of the ProCard work team's process improvement charter. The disciplinary actions are listed in the HBP under section 7.8.5 subsection F. Subsection F states:

Infractions against ProCard policy are not limited to violation of ProCard or university policy. Some examples include:

- *split transactions*
- *state sales tax being charged*
- *purchase of an item listed on the disallowed purchases table*
- *failure to have a VP7 approved prior to the approval deadline*
- *failure to adhere to ProCard Policy*

The first infraction against ProCard policy results in a warning letter. If any other infractions occur within a year of issuance of the warning letter, the following actions will be taken:

- *Second infraction: 30-day suspension of card privileges*
- *Third infraction: permanent loss of card privileges*

A cardholder cannot apply for another card if a card was canceled due to violation of ProCard policy. Improper use of the ProCard can result in the cancellation of the ProCard and possible lawful action taken against the offending party.

4-2. Policy has been completed and requires ProCard documentation to be imaged on a regular basis. The HBP has been updated, and a campus announcement notifying cardholders of this new policy was issued on September 25, 2018.

4-3. Procurement will establish policy and processes regarding the use of third-party payment processors (3PPs), as needed. The establishment of the ProCard work team will also assist the ProCard administrator by reviewing the current practices and exploring possible solutions, as well as creating future guidelines and policies related to these items.

4-4. The ProCard policy has been updated to include language and direction regarding ProCard responsibilities and liabilities along with guidelines for reporting compromised cards and disputing charges. Procurement will assist in establishing policy that requires departments to document their ProCard control environment, as needed. One of the tasks of the ProCard work team is to review current practices within units and work to create clear and standardized guidelines for these internal requirements. A standard university process would allow for better monitoring and control at both the university and department level. We do not want to give the units the impression that just documenting their current process is a solution. In summary, we are asking to be given the time to propose a solution to create a stronger and standardized internal control environment across the university.

4-5. Updates have been made to the policy requiring processes for cancelled cards and the validation of card destruction. Additionally, a Cancellation Acknowledgment form has been created, reviewed, and approved by Internal Audits, Records Management, and the AVP of Procurement and Payment Services. The HBP has been updated and a campus announcement to notify cardholders of the revised policy was issued on September 25, 2018.

4-6. A policy requiring statements for missing receipts has been completed. Additionally, a Missing Receipt form has been created, reviewed, and approved by Internal Audits, Records Management, and the AVP of Procurement and Payment Services. The completed form will be maintained with the monthly

	<p>VP7 payment documentation. Both the Missing Receipt form and the policy clearly state that abuse of the form may result in investigation of card use and potential ProCard suspension. The HBP has been updated and a campus announcement to notify cardholders of the revised policy was issued on September 25, 2018.</p> <p>4-7. Procurement will create a robust compliance training program. The ProCard work team will discuss current practices within units and help the ProCard administrator create clear guidelines and reference materials. In addition to discussions occurring within the ProCard work team, meetings have been facilitated among UTLearn, university programmers, and the ProCard administrator with the goal to transfer of the current ProCard compliance module to UTLearn. This will allow the ProCard administrator to track cardholders who do not comply with the annual training requirements and set up an automated system to remind cardholders to take the compliance exam. Updates will be made to any policies related to annual training requirements when appropriate.</p> <p>4-8. Policy and HBP have been updated to reflect the current practice that requires cardholders to sign a usage agreement prior to receiving a ProCard. A campus announcement notifying cardholders of the update of the HBP was issued on September 25, 2018. The ProCard administrator will continue to update this form to reflect all changes made to ProCard policy.</p> <p>4-9. Procurement will establish policy requirement that ProCard users, other than cardholders, must become approved users by signing an employee, or non-cardholder, usage agreement. The ProCard work team will discuss current practices within units and work to create clearer guidelines, reference materials, and forms for these processes. It is important to note that at a minimum, stricter controls need to be placed in policy when it comes to non-cardholder usage. The ProCard work team would like an opportunity to review best practices. One of the considerations is to restrict usage of the ProCard to only cardholders.</p> <p><u>Internal Audits Comment:</u> Action is in progress and expected to be fully completed by summer 2019 after the ProCard work team completes its work.</p>
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Four recommendations were directed to PMCS:

PM1.	<p><u>Control Weakness:</u> PMCS project managers(s) did not require details (description of work to be completed) on scope of work or cost proposals for large moving projects at the School of Law that resulted in five questionable Job Order Contracts totaling \$859,000.</p>
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Criteria:

Section 7.4.1 of UT's *Handbook of Business Procedures* states:

“Before a department can begin the purchasing process, the end user must identify the specific need for a good or service by defining the specification or scope of work (SOW) to include the following:

- description of good/service
- quantity needed
- quality of good/service
- date needed
- estimated cost”

The University of Texas System Policy UTS118 states, “Management shall establish and maintain a system of internal control that provides reasonable assurance that improprieties are prevented and detected. Each manager must be familiar with the types of improprieties that might occur in his or her area and be alert for any indication that such a defalcation, misappropriation, or other fiscal irregularity has occurred.”

Recommendation:

Management should establish internal controls to ensure scope of work and cost proposals are provided in detail for each Job Order Contract.

Management Response:

The process of a PMCS designated project person defining scope and aligning it with budget and schedule is core to our mission as a Project Management organization. This is discussed regularly in multiple venues at multiple levels and actually occurs in the majority of projects. We agree this needs to be more strongly formalized and plan to strengthen our internal controls to ensure scope of work and cost proposals are provided in detail for each Job Order Contract.

The process improvement effort was initiated within days following a meeting with Internal Audits on August 24, 2017, when this was first brought to our attention. We will incorporate this process improvement into our department-wide ongoing process improvement effort.

PMCS formalized its general practice by requiring a project manager be assigned to all contracts initiated by PMCS. PMCS updated its Pay Application process adding additional controls. PMCS established new protocols preventing “piggybacking” on PMCS contracts by academic units with no construction program and implemented electronic signature procedures (DocuSign) on all contract documents to improve tracking of necessary approvals.

	<p><u>Internal Audits Comment:</u> Implemented, but not verified. PMCS has new standard operating procedures for Construction Contract Closeout Deliverables and for Application and Certificate for Payment Routing Process.</p>
PM2.	<p><u>Control Weakness:</u> PMCS employees did not confirm satisfactory completion of services by obtaining proof that School of Law moving projects were completed before signing the Notice of Substantial Completion and the Pay Application forms and approving \$859,000 in payments.</p> <p><u>Criteria:</u> PMCS <i>Standard Operating Procedures #4</i> states, “PM (Project Manager) schedules substantial completion walk-through...” The University of Texas System Policy UTS118 states, “Management shall establish and maintain a system of internal control that provides reasonable assurance that improprieties are prevented and detected. Each manager must be familiar with the types of improprieties that might occur in his or her area and be alert for any indication that such a defalcation, misappropriation, or other fiscal irregularity has occurred.”</p> <p><u>Recommendation:</u> Management should establish internal controls to ensure satisfactory completion is verified and documented before signing the Notice of Substantial Completion and submitting the Pay Application forms to Business and Financial Services.</p> <p><u>Management Response:</u> Stronger oversight has been given to this activity. The project manager who was involved with the School of Law during the timeframe described has left PMCS in advance of a planned personnel action to terminate.</p> <p>PMCS will enhance internal controls to ensure satisfactory completion is verified and documented before signing the Notice of Substantial Completion and submitting the Pay Application forms to Business and Financial Services. PMCS formalized its general practice by requiring a project manager be assigned to all contracts initiated by PMCS. PMCS updated its Pay Application process adding additional controls. PMCS established new protocols preventing “piggybacking” on PMCS contracts by academic units with no construction program and implemented electronic signature procedures (DocuSign) on all contract documents to improve tracking of necessary approvals.</p>

	<p><u>Internal Audits Comment:</u> Implemented, but not verified. PMCS has new standard operating procedures for Construction Contract Closeout Deliverables and for Application and Certificate for Payment Routing Process.</p>
<p>PM3.</p>	<p><u>Control Weakness:</u> In eight instances, the director signed PMCS forms in place of the PMCS project manager resulting in questionable payments totaling \$859,000.</p> <p><u>Criteria:</u> PMCS <i>Standard Operating Procedures</i> #8 states, “If Project Manager and Professional Service Provider (PSP) determine that the project is Substantially Complete, the PM, PSP, Occupant, and Contractor sign the Certificate of Substantial Completion and punchlist while on-site.”</p> <p>The University of Texas System Policy UTS118 states, “Management shall establish and maintain a system of internal control that provides reasonable assurance that improprieties are prevented and detected. Each manager must be familiar with the types of improprieties that might occur in his or her area and be alert for any indication that such a defalcation, misappropriation, or other fiscal irregularity has occurred.”</p> <p><u>Recommendation:</u> Management should establish internal controls to ensure only PMCS employees sign PMCS pay documents and that the forms receive supervisory review.</p> <p><u>Management Response:</u> Stronger oversight has been given to this activity. The project manager who was involved with the School of Law during the timeframe described has left PMCS in advance of a planned personnel action to terminate. Going forward, no project contracted through PMCS will move forward without a designated PMCS project manager identified. The responsibilities of the project manager in this area will be clarified and strengthened in our processes and regular training sessions. PMCS updated its Pay Application process adding additional controls. PMCS established new protocols preventing “piggybacking” on PMCS contracts by academic units with no construction program and implemented electronic signature procedures (DocuSign) on all contract documents to improve tracking of necessary approvals.</p> <p><u>Internal Audits Comment:</u> Implemented, but not verified. PMCS has new standard operating procedures for Construction Contract Closeout Deliverables and for Application and Certificate for Payment Routing Process.</p>

PM4.	<p><u>Control Weakness:</u> The PMCS director was signing documents without a current delegated signature authority from the UT president on file.</p> <p><u>Criteria:</u> The University of Texas System Board of Regents Rule 10501 states:</p> <p>“No employee of the U. T. System or any of the institutions, as an individual or as a member of any association or agency, has the power to bind the System or any of the institutions unless such power has been officially conferred in advance by the Board of Regents. Any action which attempts to change the policies or otherwise bind the System or any of the institutions, taken by any individual or any association or agency, shall be of no effect whatsoever until the proposed action has been approved by the president of an institution concerned, if any, the appropriate Executive Vice Chancellor, the Deputy Chancellor, and the Chancellor, and ratified by the Board.”</p> <p><u>Recommendation:</u> PMCS management should determine whether delegated signature authority is necessary for the PMCS director or use approved delegated signers.</p> <p><u>Management Response:</u> Because of the volume of contract documents and the direct knowledge of project efforts, the director obtained delegated signature authority on December 8, 2017.</p> <p><u>Internal Audits Comment:</u> Implemented.</p>
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Appendix B: Summary of Suggested Improvements by Outside Law Firm

1. Reform the ProCard Program.
 - a. Prohibit the use of ProCards as payment methods for construction, renovation, or moving projects.
 - b. All UT ProCards should be re-examined on a periodic basis with the goal of lowering the individual transaction limit to the lowest level that still allows a cardholder to fulfill their job duties.
 - c. All UT ProCards should be re-examined on a periodic basis with the goal of lowering the total monthly limit to the lowest level that still allows a cardholder to fulfill their job duties.
 - d. Do not allow UT employees to use another employee's ProCard.
 - e. Institute additional layers of verification for ProCard purchases exceeding a pre-determined amount.
 - f. Create and implement a clear policy that an employee whose ProCard privileges are either suspended or terminated may not otherwise participate in procurement activities.
2. Tighten controls on Job Order Contracts (JOC).
 - a. Every JOC contract should have a university department that is responsible for the oversight of those services, and a representative of another department would not be allowed to be the only person to certify that the services were completed.
 - b. If a JOC contract is intended for one purpose, i.e. moving services for PMCS projects, then it should not be used for other purposes, such as generalized office moves at an individual school or college at UT.
3. Inform campus of facilities management best practices.
 - a. Make it clear, in writing, who is responsible for overseeing the facilities or building manager.
 - b. Require annual budgets for facilities expenses.
 - c. Provide training on facilities management issues.
4. Provide compliance training for UT vendors by implementing a brief online training video or packet covering important points for doing business with UT. Examples of points that could be made include
 - a. A vendor should not pay a UT employee directly, e.g., never write a check to a UT employee or a company he or she controls.
 - b. Never allow a UT employee to supervise the subcontractors working for a vendor.
 - c. If a vendor will be using subcontractors, the identity and need for the subcontractors must be disclosed in advance.
 - d. All construction projects over a certain dollar limit (currently \$15,000) must be overseen by UT's PMCS. A vendor should not agree to do a job of that size unless PMCS is involved.
 - e. Do not agree to split a project up into separate bills to keep expenses under a certain limit, especially if the reason given is to receive payment via UT ProCard.

Appendix C: Audit Issue Ranking

Audit Issue Ranking

Audit issues are ranked according to the following definitions, consistent with UT System Audit Office guidance. These determinations are based on overall risk to UT System, UT, and/or the individual college/school/unit if the issues are left uncorrected. These audit issues and rankings are reported to UT System directly.

- **Priority** – A Priority Issue is an issue that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT or the UT System as a whole.
- **High** – An issue that is considered to have a medium to high probability of adverse effects to UT either as a whole or to a significant college/school/unit level.
- **Medium** – An issue that is considered to have a low to medium probability of adverse effects to UT either as a whole or to a college/school/unit level.
- **Low** – An issue that is considered to have minimal probability of adverse effects to UT either as a whole or to a college/school/unit level. Issues with a ranking of “Low” are reported verbally to the unit and are not included in the final report.