



February 2, 2018

Jason King, Associate Compliance Officer and Ethics Officer, Systemwide Compliance  
Jerry Fuller, Director, Contracts and Procurement  
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The University of Texas System Administration  
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Dear Jason, Jerry, and Mindy:

The University of Texas (UT) System Audit Office has completed the Compliance with UTS180 and Related System Administration Policies audit report. The overall objective of this engagement was to determine whether UT System Administration's activities to achieve compliance with UTS180, *Conflicts of Interest, Commitment, and Outside Activities*, and associated System Administration policies are adequate. This objective included determining whether activities to monitor conflicts of interest and commitment are adequate. The scope of this engagement included the period from September 1, 2016 through August 31, 2017. The engagement was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

We will follow up on the recommendation made in this report to determine its implementation status. This process will help enhance accountability and ensure that audit recommendations are implemented in a timely manner.

We appreciate the assistance provided by the Offices of Systemwide Compliance, Contracts and Procurement, and Facilities Planning and Construction in conducting this engagement.

Sincerely,

J. Michael Peppers, CPA, CIA, QIAL, CRMA  
Chief Audit Executive

cc: David Daniel, Ph.D., Deputy Chancellor  
Scott Kelley, Ed. D., Executive Vice Chancellor for Business Affairs  
Phil Dendy, Chief Compliance and Risk Officer  
Michael O'Donnell, Associate Vice Chancellor, Facilities Planning and Construction

**The University of Texas System Administration  
An Audit of Compliance with UTS180 and Related System  
Administration Policies  
FY 2017**



**February 2018**

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## **Audit Report**

February 2018

### ***EXECUTIVE SUMMARY***

Regents' Rule 30104, *Conflict of Interest, Conflict of Commitment, and Outside Activities*, requires The University of Texas (UT) System Administration to establish a policy providing requirements for the approval and disclosure of outside activities for employees of System Administration and all UT institutions. To meet this requirement, UT System Administration established UTS180, *Conflicts of Interest, Conflicts of Commitment, and Outside Activities* (UTS180). UTS180 requires UT System Administration and each institution "to adopt policies that clearly delineate the nature and extent of permissible outside activities and interests for Executive Officers and Employees Involved in Procurement Activities or contract management." UT System Administration's policies are documented in INT180, *Conflicts of Interest, Conflicts of Commitment, and Outside Activities* (INT180), INT129.1, *Outside Activity Policy for Executive Officers and Employees Involved in Procurement Activities or Contract Management* (INT129.1), and INT129.2, *Outside Activity Policy for All Employees, Excluding Executive Officers and Employees Involved in Procurement Activities or Contract Management* (INT129.2). UTS180 and INT129.1 require executive officers and individuals involved in procurement activities or contract management to disclose for themselves and immediate family members certain required information. In addition, UTS180, INT129.1, and INT129.2 require prior approval for all outside compensated activities and any outside activity, regardless of compensation, that reasonably appears to create a conflict of interest or commitment. UTS180 also requires a process for electronic approval and disclosure of outside activities.

The overall objective of this engagement was to determine whether System Administration's activities to achieve compliance with UTS180 and associated UT System Administration policies are adequate. This objective included determining whether activities to monitor conflicts of interest and commitment are adequate. The scope of this engagement included the period from September 1, 2016 through August 31, 2017.

As required, INT129.1 and INT129.2 include the key policy requirements of UTS180. UT System Administration has also developed an online reporting system, the Outside Activity Portal, to facilitate annual reporting of conflicts of interest and commitment disclosures, as well as approvals for outside activities. Eleven UT institutions and System Administration utilize the Outside Activity Portal, while three have elected to utilize their own systems and provide electronic disclosure files to the Systemwide Compliance twice each year. Systemwide Compliance also works regularly with the institutions to ensure the Outside Activity Portal is meeting their reporting needs and provides guidance to System Administration and the institutions regarding conflicts of interest and commitment questions they might have. However, from the procedures performed, we identified instances of non-compliance with UTS180 and opportunities to improve monitoring:

- Only 14 of 28 executive officers and administrative office leaders successfully completed disclosures for Calendar Year (CY) 2016.
- Only 28 of 179 individuals involved in the procurement process successfully completed UTS180-required disclosures in CY 2016. However, improvement was observed for CY 2017, which appears to be related to a new disclosure monitoring process implemented by the Office of Contracts and Procurement and in-person training provided earlier in CY 2017.
- The majority of individuals involved in the capital construction procurement process led by the Office of Facilities Planning and Construction (OFPC) did not complete their UTS180-required disclosures for CY 2016.
- Procurements we tested included UT institutional personnel as part of the vendor selections process. While these individuals completed state-required disclosures, they generally did not also complete UTS180 disclosures.



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- Most individuals (73 of 88) who self-disclosed that they met the procurement activity disclosure requirement as defined by UTS180 and INT129.1 did not complete UTS180-required disclosures for CY 2016.
- The testing results indicate a lack of completeness of disclosures and opportunities to improve user understanding with policy requirements, how to successfully complete an annual disclosure in the Outside Activity Portal, and a lack of understanding of disclosure policy requirements.
- For CY 2016, just 16% of outside activities that were approved had documented approval in the Outside Activity Portal before the outside activity began. This improved to 36% for CY 2017 (through August 31). We also identified several activities that were disclosed for which no approval was documented in the Outside Activity Portal.
- Monitoring of conflicts of interest could be enhanced with a review by the UT System ethics officer of outside compensated activities that exceed a risk-based dollar amount.
- While training was offered and taken by over 100 System Administration employees, it appears several individuals who likely could have benefitted from training did not elect to take training.
- Lastly, opportunities exist to update UTS180 and related System Administration policies that include, but are not limited to, reducing institutional disclosures from institutions that have their own internal disclosures systems to once per year and combining INT129.1 and INT129.2 into a single comprehensive UT System Administration policy.

To address these observations and to assist in protecting the credibility and reputation of UT System Administration, we have provided management recommendations to enhance monitoring and utilize reporting tools available through the Outside Activity Portal to ensure that individuals required to disclose are completing their disclosures, to ensure that outside activities receive prior approval, and to ensure that appropriate individuals receive training.

**CONCLUSION**

UT System Administration's activities to achieve compliance UTS180 Conflicts of Interest, Commitment, and Outside Activities and associated System Administration policies can be improved. Our report includes recommendations to achieve compliance with current UTS180, INT180, INT129.1, and INT129.2 requirements. Implementation of these recommendations would likely require additional time and resources. Consequently, we have first recommended that, before detailed action plans are developed, Systemwide Compliance, in coordination with the Executive Compliance Committee, review UTS180 policy requirements. Then, Systemwide Compliance should determine whether additional disclosures from those involved in procurement activities in the Outside Activity Portal are necessary, given the controls and processes already in place, and being enhanced, for individual procurements. Other policy requirements should also be reviewed. Overall, a risk-based approach should be undertaken to determine the appropriate balance of risk with the cost and effort needed to protect the credibility and reputation of the UT System Administration, of each UT institution, and their employees.

J. Michael Peppers, CPA, CIA, QIAL, CRMA  
Chief Audit Executive

Eric J. Polonski, CPA, CIA  
Audit Director



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### **BACKGROUND**

Regents' Rule 30104, *Conflict of Interest, Conflict of Commitment, and Outside Activities*, requires The University of Texas (UT) System Administration to "establish a policy providing requirements for the approval and disclosure of outside activities for employees who (1) are authorized to execute contracts on behalf of UT System Administration or a UT System institution, (2) are authorized to exercise discretion with regard to the award of contracts or other pecuniary transactions, and (3) are executive officers of UT System Administration or a UT System institution."

To meet this requirement, UT System Administration established UTS180, *Conflicts of Interest, Conflicts of Commitment, and Outside Activities*. The intended purpose of this policy is "to protect the credibility and reputation of the UT System Administration, of each UT institution, and their employees, by providing a framework to address conflicts of interest, conflicts of commitment, and outside activities." UTS180 requires UT System Administration and each UT institution "to adopt policies that clearly delineate the nature and extent of permissible outside activities and interests for Executive Officers and Employees Involved in Procurement Activities or contract management." UTS180 also requires a process for electronic approval and disclosure of outside activities.

UT System Administration's policies are documented in INT180, *Conflicts of Interest, Conflicts of Commitment, and Outside Activities*; INT129.1, *Outside Activity Policy for Executive Officers and Employees Involved in Procurement Activities or Contract Management*; and INT129.2, *Outside Activity Policy for All Employees, Excluding Executive Officers and Employees Involved in Procurement Activities or Contract Management*. In addition, UT System Administration has developed an online disclosure system, the Outside Activity Portal, to facilitate conflicts of interest and commitment disclosures, as well as approvals for outside activities. This is a shared service provided by UT System Administration. Eleven institutions and UT System Administration utilize the Outside Activity Portal to complete annual UTS180-required disclosures. The UT Health Science Center at Houston, The UT Health Science Center at San Antonio, and The UT Southwestern Medical Center, do not use the Outside Activity Portal and provide electronic disclosure files to the Systemwide Compliance twice each year. With disclosures made through the Outside Activity Portal and provided electronic disclosure files, Systemwide Compliance has a repository of all UTS180-required disclosures for UT institutions and System Administration.

### **ENGAGEMENT OBJECTIVES**

The overall objective of this engagement was to determine whether UT System Administration's activities to achieve compliance with UTS180, *Conflicts of Interest, Commitment, and Outside Activities*, and associated System Administration policies are adequate. This objective included determining whether activities to monitor conflicts of interest and commitment are adequate.

### **SCOPE & METHODOLOGY**

The scope of this engagement included the period from September 1, 2016 through August 31, 2017.

To achieve our objectives, we performed the following procedures:

- Interviewed management from UT Systemwide Compliance, the Office of Contracts and Procurement (C&P), and the Office of Facilities Planning and Construction (OFPC);
- Reviewed and analyzed disclosure data that we downloaded from the Outside Activity Portal;
- Reviewed approvals for outside activities;
- Selected a sample of 10 contracts and determined whether those involved in contractor selection also completed annual disclosure information in the Outside Activity Portal;
- Reviewed training materials and related attendance records; and
- Completed other procedures as deemed necessary.



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Our engagement was conducted in accordance with the guidelines set forth in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

### **CRITERIA**

- UTS180, *Conflicts of Interest, Conflicts of Commitment, and Outside Activities* (UTS180),
- INT180, *Conflicts of Interest, Conflicts of Commitment, and Outside Activities* (INT180),
- INT129.1, *Outside Activity Policy for Executive Officers and Employees Involved in Procurement Activities or Contract Management* (INT129.1), and
- INT129.2, *Outside Activity Policy for All Employees, Excluding Executive Officers and Employees Involved in Procurement Activities or Contract Management* (INT129.2).

### **ENGAGEMENT RESULTS**

UTS180 provides a comprehensive framework to address conflicts of interest, conflicts of commitment, and outside activities. It sets expectations for all employees across the UT System. Adherence to policy requirements can reduce the risk of negative reputational impact to UT System Administration and the UT institutions. This risk is applicable to the procurement process, and individuals should be free of conflicts of interest when they make recommendations or decisions regarding vendor selection. *Texas Government Code* (TGC) Section 2262.004 requires that prior to "award[ing] a major contract [those exceeding \$1 million] for the purchase of goods or services to a business entity, each of the state agency's purchasing personnel working on the contract must disclose in writing to the administrative head of the state agency any relationship the purchasing personnel is aware about that the employee has with an employee, a partner, a major stockholder, a paid consultant with a contract with the business entity the value of which exceeds \$25,000, or other owner of the business entity that is within a degree described by Section 573.002."

While we did not specifically test this state-required disclosure process, it generally appears that the written disclosures required by TGC 2262.004 are being completed as individuals are prompted to complete these forms during the procurement process. Having a process in place to ensure compliance with statute is a key control to ensure that UT System personnel are either free of conflicts of interest or that appropriate action is taken to help ensure a fair selection process for specific procurements.

UT System Administration also has a process in place for all competitively selected contracts, including those less than \$1 million. Each member of a request for proposal (RFP) evaluation team is required to complete, sign, and date a "Non-Disclosure/Conflict of Interest Statement." In this statement, selection team members attest that they will report to the Office of Contracts and Procurement (C&P) "any conflict of interest that may exist with any proposer" and confirm that "any disclosures required by UTS180 have been entered into the" Outside Activity Portal. For contracts procured through exclusive acquisition justification (EAJ), individuals are also required to complete a conflict of interest statement (i.e., that they have no conflicts with respect to the specific procurement) and that they have completed their UTS180 disclosures in the Outside Activity Portal. Beginning in February 2017, the C&P began a process to validate whether individuals involved in vendor selection have completed their required UTS180 disclosures. While C&P indicated that individuals were not consistently completing their UTS180 disclosures, C&P informed us that the process has improved over time and that procurement will be halted if all members of a selection team have not completed their UTS180 disclosures.

In addition to procurement-specific disclosures required by statute for major contracts and by C&P for competitively selected contracts and EAJ procurements, UTS180 requires that executive officers and individuals involved in procurement activities or contract management disclose the following information for themselves and for immediate family members:

- (i) a description of the nature and extent of all outside employment or other compensated activity;



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- (ii) a description of the nature and extent of any outside activity, regardless of compensation, that reasonably appears to create a conflict of interest or a conflict of commitment;
- (iii) a description of the nature and extent of certain outside board service;
- (iv) a description, including the amount of compensation or interest, of any substantial interest in a business entity, which should be provided no later than 30 days after acquiring the interest; and
- (v) a description of certain gifts over \$250.

These disclosure requirements are not directly tied to a specific procurement and UTS180 disclosures made in the Outside Activity Portal do not provide additional assurance that individuals involved in vendor selections are free of conflicts of interests. The key control is ensuring that conflicts of interest are identified and appropriately handled during each specific procurement. In absence of UTS180 disclosures from those involved in vendor selection, C&P indicated that it would still require individuals to complete Non-Disclosure/Conflict of Interest Statements for RFPs and the conflict of interest statement for EAJ procurements and that the two forms could be appropriately updated, including references to UTS180 disclosures.

The audit results indicate that not all UT System Administration leaders or those involved in procurement activities are completing their annual disclosures in the Outside Activity Portal, a high likelihood of incomplete disclosures, a general lack of user understanding of how to successfully complete an annual disclosure in the Outside Activity Portal, and a lack of understanding of disclosure policy requirements. While System Administration serves as a custodian of annual disclosures for all UT System personnel, we are not aware of any statute that requires UT System Administration to maintain a database of disclosures for all UT System employees. Maintenance of a Systemwide database could be perceived as including an obligation to monitor or provide oversight for Systemwide disclosures. Currently, there is no process in place to review disclosures to ensure accuracy or completeness of disclosures provided. In addition, the disclosures provided and retained in the Outside Activity Portal are generally a matter of public record.

Certain recommendations that follow in this report focus on improving monitoring to ensure compliance with UTS180, INT129.1, and INT129.2. However, before developing action plans to address these recommendations, management should consider the correct balance of needed assurance with the cost and effort needed to provide it.

The observation described above is considered a **high-level finding** in accordance with UT System's Internal Audit finding classification system.

**Recommendation:** Systemwide Compliance, in coordination and consultation with the Executive Compliance Committee, should review UTS180, review its disclosure requirements, and determine whether additional disclosures in the Outside Activity Portal beyond those required by statute (and handled through the procurement process) from individuals involved in procurement activities is necessary. The Outside Activity Portal could continue to be used for annual disclosures for leadership from UT System Administration and the UT institutions and potentially those involved in contract management, but may not be involved in vendor selection. Disclosures that are required to be made should be monitored to protect the credibility and reputation of System Administration and each UT institution. In addition, other policy requirements should also be reviewed to ensure the appropriate balance of risk and the efforts needed to achieve compliance with policy requirements to protect the credibility and reputation of the UT System Administration, of each UT institution, and their employees.

**Management's Response:** *The Office of Systemwide Compliance has met with the UT System Executive Compliance Committee regarding this report. Management concurs with System Audit's recommendation to review the policy requirements of UTS180 and related INTs. This review will involve both System Administration as well as affected UT institutions.*



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*Management stands ready to begin implementation of System Audit's recommendation to the policy as it currently exists. However before beginning those efforts, which would require significant manpower and technological resources to accomplish, management agrees with System Audit that we should first ensure that our policies are aligned to most effectively protect the credibility and reputation of the UT System Administration, each UT institution, and their employees. To the extent that our policies are currently mis-aligned, management will undertake a Systemwide effort to amend UTS180 to better accomplish its critical goals.*

*Management anticipates that a revised policy will accomplish the following:*

- 1. Streamline the outside activity approval process;*
- 2. Require that each institution (as well as System Administration) establish processes to ensure that procurement is sufficiently protected from conflicts of interest, but provide flexibility on what those processes may be; and*
- 3. Continue to provide access to the UT System outside activity portal to each institution on a discretionary, rather than mandatory, basis.*

*Due to the substantial revisions currently contemplated, most of the System Audit recommendations contained in this report will be addressed through policy changes. For the audit recommendations contained in the remainder of this report, the management response will be brief.*

**Anticipated Implementation Date:** *Policy revision efforts will begin immediately. We anticipate completion of the policy revision effort within six months [July 31, 2018].*

We compared UTS180 with INT129.1 and INT129.2 and validated that both INT129 policies include the key policy requirements of UTS180. In addition, we reviewed the Outside Activity Portal, which facilitates conflicts of interest and commitment disclosures, as well as approvals for outside activities. It appears that the Outside Activity Portal facilitates electronic reporting of annual disclosure and electronic workflow for approvals of outside activities. It also has robust reporting features that could be used to enhance monitoring. Systemwide Compliance works regularly with the UT institutions to ensure the Outside Activity Portal is meeting their reporting needs and we validated that the three institutions that do not use the Outside Activity Portal provided Systemwide Compliance with electronic files of their respective institutional disclosures as required by UTS180. In addition, Systemwide Compliance provides guidance to UT System Administration and the institutions regarding conflicts of interest and commitment questions they might have. However, from the procedures performed, we identified instances of non-compliance with UTS180 and opportunities to improve monitoring.

### **Executive Officer and Office Leader Disclosures**

As previously described, all executive officers are to electronically disclose for themselves and immediate family members, certain information required by UTS180 each year. As defined by INT129.1, executive officers include, but are not limited to the Chancellor, all individuals who report directly to the Chancellor or Deputy Chancellor (other than administrative support positions), and any employee who exercises broad and significant discretion over key institution functions.



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We reviewed records of outside activities retained in the Outside Activity Portal to determine whether executive officers and the administrative office leaders (which included 38 individuals as determined by System Audit) completed disclosures for CY 2016. As illustrated in Table 1, 14 of the 38 individuals (or 37%) completed a disclosure for CY 2016. However, it is likely that the 10 that completed disclosures for CY 2017 intended to do so for CY 2016, as these disclosures were generally made during the three-month-reporting window in CY 2017 for CY 2016. Not all executive officers and administrative office leaders may be clear on their disclosure responsibilities or how to successfully complete a disclosure in the Outside Activity Portal. In addition, there is no process currently in place to ensure that executive officers have submitted an annual disclosure in the Outside Activity Portal.

Table 1: *Executive Officers' and Office Leaders' Disclosures*

Employee Type	Executive Officer	Other Administrative Officer Leaders	Total
Specific Disclosure Made for 2016	5	5	10
Disclosure of "No Activity" for 2016	2	2	4
Specific Disclosure Made for 2017	1	3	4
Disclosure of "No Activity" for 2017	0	6	6
Attempted but Did not Complete a Disclosure	0	10	10
No Attempt Made to Complete a Disclosure	0	4	4
Total	8	30	38

The observation described above is considered a **high-level** finding in accordance with UT System's Internal Audit finding classification system.

**Recommendation:** Management should establish a monitoring process, possibly during the annual disclosure reporting period, to determine whether all executive officers and administrative leaders of UT System Administration offices have completed their annual disclosures. This process can be facilitated with development of custom reports or reporting groups within the Outside Activity Portal. Using these reports, management could provide email notifications to the intended recipients and their immediate supervisors.

**Management's Response:** *As indicated in the first management response, management intends to amend UTS180. The disclosures discussed in this recommendation will be heavily impacted by the anticipated policy revisions. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation.*

*To the extent that the revised policy has not resolved this issue, management intends to establish a monitoring process to ensure that executive officers have completed their annual disclosure requirements.*

**Anticipated Implementation Date:** *Policy revision efforts will begin immediately. We anticipate completion of the policy revision effort within six months [July 31, 2018].*

**Disclosures for Those Involved in Procurement Activities**

As previously described, individuals involved in procurement activities or contract management are to electronically disclose for themselves and for immediate family members, certain information required by UTS180 each year. This disclosure requirement is applicable to employees who are authorized to make decisions or recommendations on purchases of \$15,000 or more.



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We reviewed 197 disclosure records made by 179 individuals that self-disclosed that they met procurement activity criteria for annual disclosure. There were more disclosures than individuals since there were 18 individuals who completed disclosures for both CY 2016 and CY 2017. As illustrated in Table 2, 28 of 179 individuals (or 15.6%) successfully completed disclosures for CY 2016. We also reviewed disclosures for contract managers for RFPs posted after February 1, 2017. Eight of 14 individuals listed as contract managers (or 57.1%) made a disclosure for CY 2017. However, it is not clear if this was in response to the RFP or to make a disclosure for CY 2016 during the CY 2017 reporting period, as several of the disclosures were made during the CY 2017 reporting window for CY 2016. For the remaining six, three did not complete any disclosure for CY 2016 or CY 2017, two made a disclosure for CY 2016 but not CY 2017, and one attempted a disclosure but did not complete the process.

Table 2: Procurement Disclosures

Employee Type	Number of Disclosures
Specific Disclosure Made for 2016	23
Disclosure of "No Activity" for 2016	5
Specific Disclosure Made for 2017	19
Disclosure of "No Activity" for 2017	82
Attempted but Did not Complete a Disclosure	68
No Attempt Made to Complete a Disclosure	0
Total	197

We also selected a sample of 10 awarded contracts (seven facilitated by C&P and three by OFPC) to determine whether individuals who completed a disclosure form required by TGC 2262.004 also completed an annual disclosure in the Outside Activity Portal. There were 53 state-required disclosure forms completed by 38 UT System Administration employees in either CY 2017 or CY 2016 for the 10 contracts. For three contracts, the state required forms were completed in CY 2016 and for seven contracts in CY 2017.

Table 3: 2016 Contracts

No. of Contracts	3
Combined Contract Value	\$195 Million
Individuals that completed a 2016 Disclosure	1
Individuals that Provided a 2017 "No Activity" Disclosure	6
Individuals that Attempted to Disclose but not Successful	2
Individuals that did not provide a disclosure	2
Total	11

As illustrated in Table 3, only one of 11 individuals that completed a state-required disclosure form also completed a disclosure in the Outside Activity Portal for CY 2016. However, for 2017, it appears improvement may have been made. As illustrated in Table 4 below, 19 of 27 individuals (or 70%) that completed a state-required disclosure also completed a 2017 disclosure. Beginning in February 2017, the C&P began a process to validate whether individuals involved in vendor selection have completed their required UTS180 disclosures. However, it is not clear if all completed disclosures were intended for CY 2017 as several were completed during the three-month reporting period in CY 2017 for CY 2016.

Table 4: 2017 Contracts

No. of Contracts	7
Combined Contract Value	\$439 Million
Individuals that Provided a 2017 Disclosure	2
Individuals that Provided a 2017 "No Activity" Disclosure	17
Individuals that Attempted to Disclose but not Successful	2
Individuals that Provided a 2016 but not a 2017 Disclosure	2
Individuals that did not provide a disclosure	4
Total	27

It generally appears that individuals involved in the formal procurement process are completing their procurement-specific disclosures required by statute. Members on evaluation teams are regularly prompted to complete these paper-based disclosure forms during the procurement process. However, it does not appear that all of the same individuals are aware of their UTS180 disclosure requirements. In addition, C&P indicated that individuals were not consistently completing their UTS180 disclosures when they first instituted the process. However, C&P



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informed System Audit that the process has improved since implementation and that C&P will halt a procurement if all members of a selection team have not completed their UTS180 disclosures.

With respect to OFPC-led procurements, there was a similar C&P process in place to monitor UTS180-required disclosures. Testing results indicate that the majority of individuals involved in the capital construction procurement process led by OFPC did not complete their UTS180-required disclosures for CY 2016. During the engagement, OFPC's assistant director for contract management began to work with Systemwide Compliance to develop customized reports within the Outside Activity Portal to monitor UTS180 disclosures for capital construction projects facilitated by OFPC.

The observation described above is considered a **high-level** finding in accordance with UT System's Internal Audit finding classification system.

**Recommendation:** Management should:

1. Implement a process to ensure that individuals who access the Outside Activity Portal have completed the procurement and contract management questions. This could be facilitated with edit checks that prompt users to provide responses to the procurement activity questions and/or with customized reports that identify disclosures that do not include responses to procurement activity questions.
2. Implement a process to ensure that individuals who have self-disclosed that they are part of the procurement process are, in fact, completing disclosures required by policy. This could be facilitated by developing a customized report in the Outside Activity Portal to identify these individuals and review whether such individuals have successfully completed a disclosure for a given calendar year.

The monitoring described could include monitoring by the C&P for C&P led procurements, by OFPC for OFPC led procurements, and confirmation review by Systemwide Compliance.

**Systemwide Compliance Management Response:** *As indicated in the first management response, management intends to amend UTS180. The disclosures discussed in this recommendation will be heavily impacted by the anticipated policy revisions. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation.*

**Systemwide Compliance Anticipated Implementation Date:** *Policy revision efforts will begin immediately. We anticipate completion of the policy revision effort within six months [July 31, 2018].*

**Disclosures by Institutional Personnel for System Administration-led Procurements**

Twenty-eight UT institutional personnel from the 14 institutions participated on three OFPC-led contracts and two C&P-led contracts. With the assistance of Systemwide Compliance, we determined that 10 of 28 (or 36%) completed UTS180-required disclosures for CY 2016. Individuals that participated in the procurements included campus leaders and executive officers, many of whom would have likely been required to complete disclosures whether or not they participated in a procurement led by UT System Administration. While we did not specifically audit UTS180 disclosures by the institutions, various campuses may not have sufficient processes in place to ensure that their employees are completing UTS180-required disclosures.

The observation described above is considered a **high-level** finding in accordance with UT System's Internal Audit finding classification system.



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**Recommendation:** While there is no specific requirement that UT System Administration provide oversight for institutional disclosures, management should consider implementing a process to have the institutions provide assurance to UT System Administration that the institutional employees participating in System Administration procurements have completed their annual certifications. This could take the form of a certification or development of a customized report that could identify exceptions that could be reported back to the institutions. Certifications or copies of specific disclosures could come from institutions that do not use the portal and exception reports could be developed for UT institutions that use the Outside Activity Portal.

**Management Response:** *As indicated in the first management response, management intends to amend UTS180. The disclosures discussed in this recommendation will be heavily impacted by the anticipated policy revisions. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation.*

*For inter-institutional procurements, the current processes of our System Administration procurement office protect UT from un-managed conflicts of interest. Management does not anticipate creating an inter-institutional certification or verification process in addition to our procurement department’s existing processes.*

**Anticipated Implementation Date:** *Policy revision efforts will begin immediately. We anticipate completion of the policy revision effort within six months [July 31, 2018].*

**Completeness of Disclosures**

As previously described, UTS180 and INT129.1 require all executive officers to electronically disclose for themselves and for immediate family members certain required information each year. In addition to a lack of completed disclosures for executive officers, UT System Administration office leaders, and those involved procurement activities, we noted the following:

1. There were 179 individuals that self-disclosed they met annual reporting requirement. There were also 704 individuals for which

Table 5: Disclosures for Those Likely Required to Disclose

Employee Type	Executive Officer	Other Leaders	Attorney	Totals
Specific Disclosure for CY 2016	4	1	1	6
Made Disclosure of No Activity for CY 2016	4	5		9
Specific Disclosure Made for 2017	1	1	2	4
Disclosure of ‘No Activity’ for 2017	2			2
Individual attempted a disclosure but did not complete a disclosure or disclose no activity	1	13	3	17
Did not disclose in CY 2016	4	33	13	50
Total	16	53	19	88

responses to the procurement activity questions were not provided. Most were due to 595 employees who did not log into the Outside Activity Portal, and it is likely that, for most, no disclosure was necessary from this group. From the 704, we identified 88 individuals who are likely required to complete an annual disclosure. As illustrated in Table 5 above, most (73 of 88, or 83%) did not complete an annual disclosure in the Outside Activity Portal for CY 2016. Outside of the context of a particular procurement, there is currently no monitoring specifically related to those who self-disclosed that they meet the procurement and contract management disclosure requirements of INT129.1.

2. Executive officers and employees involved in contract management are to disclose for themselves and immediate family members a description of the nature and extent of all outside employment or other



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compensated activity. In CY 2016, there were 6 disclosures completed for five spouses. There were four disclosures completed for four spouses for the first nine months of CY 2017. None of these four spouses was the same as the five in 2016. All 2017 spousal disclosures were completed in February 2017, which could indicate that the spousal disclosures were intended for 2016.

3. There were 12 total significant business interest disclosures for CY 2016 and 11 for CY 2017. However, many of the CY 2017 disclosures made during CY 2017 reporting window for CY 2016 may have been intended for CY 2016. Of the 23 disclosures provided, 11 were for spouses. Excluding spousal disclosures, there were 12 significant business interest disclosures for employees.
4. From the disclosure downloads, we noted that there are up to 125 data fields that could be completed. While not all fields would likely need to be completed for any one individual, there may be opportunities to reduce the amount of information requested from individuals required to disclose.
5. Prior to this engagement, Systemwide Compliance did not have an adequate process in place to ensure that all active UT System Administration employees are included in the Outside Activity Portal. This does not imply that everyone is required to disclose; however, all employees should have the opportunity to disclose or request prior approval of outside activities, if needed to do so. During the engagement, Systemwide Compliance worked with the Office of Technology and Information Services and the Office of Human Resources to come up with a solution.

The observation described above is considered a **medium-level** finding in accordance with UT System's Internal Audit finding classification system.

**Recommendation:** Management should review data requested for disclosure and determine, in coordination with the institutions, whether less information could be requested while still providing necessary information to allow for appropriate monitoring. For information that is required, management should ensure there are sufficient edit checks in the Outside Activity Portal to ensure information requested from employees is complete. Management should also explore the feasibility of providing email confirmations and summaries to individuals of disclosures made. This would give users a chance to review a summary report of information disclosed and may prompt users to go back into the system to ensure accuracy. Management should also explore the feasibility of providing emails to individuals that either logged into the system or attempted but did not complete a disclosure and prompt those users to complete a disclosure, if they intended to do so. In addition, management should require users to complete the contracting questions so that management can monitor whether those individuals involved in procurement and contract management have completed their required disclosures.

**Management's Response:** *As indicated in the first management response, management intends to amend UTS180. The issues discussed in this recommendation will be heavily impacted by the anticipated policy revisions. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation.*

**Anticipated Implementation Date:** *Policy revision efforts will begin immediately. We anticipate completion of the policy revision effort within six months [July 31, 2018].*

### **Prior Approval of Outside Activities**

As required by UTS180, INT129.1, and INT129.2, all employees must electronically request and receive prior approval for all outside employment or other compensated activity and any outside activity, regardless of



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compensation, that reasonably appears to create a conflict of interest or a conflict of commitment. In addition, INT129.1 and INT129.2 state that retrospective approval should be limited to “when the individual is called upon to assist in an emergency or urgent situation where it would be impossible or unreasonable to obtain advance approval. In such cases, the activity must be fully disclosed and approval sought from the appropriate authority as soon as reasonably possible.”

We reviewed records of outside activities retained in the Outside Activity Portal for CY 2016 to determine whether the outside activities were approved and whether the activities that were approved received approval before the disclosed start date of the outside activity. As illustrated in Table 6 below, just 16% of all outside activities had prior approval recorded in the Outside Activity Portal. In addition, the after-the-fact approvals did not generally appear to be for outside activities to assist in an emergency or urgent situation for which it would be impossible or unreasonable to obtain advance approval.

Table 6: *Approval of Outside Activities for CY 2016*

Outside Activity Type	Total Number of Outside Activities Recorded in the Outside Activity Portal	Total Number of Outside Activities without any Approval	Total Number of Outside Activities with Approval	Total approved Outside Activities with Prior Approval
Service on boards and uncompensated Activities	39	18 (46% of the total)	21 (54% of the total)	4 (10% of the total)
Compensated Activities (excluding spouses of employees)	30	8 (27% of the total)	22 (73% of the total)	7 (23% of the total)
All Outside Activities	69	26 (38% of the total)	43 (62% of the total)	11 (16% of the total)

We also reviewed records of outside activities retained in the Outside Activity Portal for CY 2017 to determine whether there was any improvement subsequent to training provided to UT System Administration employees at the beginning of CY 2017. As illustrated in Table 7 below, we determined that the majority of uncompensated or service on outside board activities did not demonstrate evidence of prior approval. However, over 56% of compensated outside activities demonstrated evidence of prior approval in the Outside Activity Portal. While an improvement from CY 2016, just 36% of all recorded outside activities had prior approval. In addition, the after-the-fact approvals did not generally appear to be for outside activities to assist in an emergency or urgent situation for which it would be impossible or unreasonable to obtain advance approval.

Table 7: *Approval of Outside Activities for the First 9 Months of CY 2017*

Outside Activity Type	Total Number of Outside Activities Recorded in the Outside Activity Portal	Total Number of Outside Activities without any Approval	Total Number of Outside Activities with Approval	Total approved Outside Activities with Prior Approval
Service on boards and uncompensated Activities	15	7 (47% of the total)	8 (53% of the total)	2 (13% of the total)
Compensated Activities (excluding spouses of employees)	18	6 (33% of the total)	12 (67% of the total)	10 (56% of the total)
All Outside Activities	33	13 (39% of the total)	20 (61% of the total)	12 (36% of the total)

We also compared the total number of uncompensated and service on board outside activities from CY 2016 to CY 2017. As of mid-September 2017, there is a large decline in outside activities recorded (approved or not) when compared to the prior calendar year—from 39 to 15. A similar decline is observed for approved activities—



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from 21 to 8. While new uncompensated or service on board outside activities may have arisen during the final quarter in the calendar year, it is unlikely that the number of new activities could account for the difference. It appears that individuals may be waiting to disclose uncompensated and service-on-board outside activities for CY 2017 during the three-month-reporting period in CY 2018. Many if not most of these would have required prior approval. In addition, just one individual was on both the CY 2016 and CY 2017 list of individuals with outside board or uncompensated activities. It is unlikely that several individuals discontinued uncompensated or service-on-board outside activities effective December 31, 2016.

We also compared the total number of compensated outside activities from CY 2016 to CY 2017. As of mid-September 2017, there is a large decline in outside compensated activities for employees when compared to the prior calendar year—from 30 to 18. A similar decline is observed for approved activities—from 22 to 12. It appears that individuals may be waiting disclose outside compensated activities for CY 2017 during the three-month-reporting period in CY 2018, all of which would require prior approval. In addition, there are just four individuals with compensated outside activities recorded for both 2016 and 2017. It is unlikely that several individuals discontinued compensated activities effective December 31, 2016.

The observation described above is considered a **medium-level** finding in accordance with UT System's Internal Audit finding classification system.

**Recommendation:** To ensure outside activities are reviewed and approved prior to when they begin, management should monitor approvals of outside activities to determine which employees are receiving after-the-fact approval and provide targeted reminders to the individuals and their immediate supervisors that approval is needed before an outside activity begins. This will reduce the risk that future outside activities begin before they are approved or that employees are engaged in outside activities that may impair the reputation of UT System Administration.

**Management's Response:** *As indicated in the first management response, management intends to amend UTS180. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation.*

*To the extent that policy changes cannot address this issue, management will explore the feasibility of creating software notifications in the outside activity portal to notify managers when a particular request for outside activity appears to seek prior approval for said activity.*

**Anticipated Implementation Date:** *Policy revision efforts will begin immediately. We anticipate completion of the policy revision effort within six months [July 31, 2018].*

### **Monitoring of Disclosures and Outside Activities**

According to INT129.1, Section 7.1, *Additional Process Requirements, Management Plans*, "management plans must be in place for all Officers and employees covered by this policy for outside activities that may create a conflict of interest or a conflict of commitment before activity begins. Management plans will be developed by the Ethics Advisor and approved by the employee's supervisor."

During the engagement, we identified one approved outside activity that appeared to warrant additional review. The UT System ethics advisor reviewed the conflict, interviewed the employee and the employee's supervisor, and informed System Audit that sufficient steps had been taken to adequately address the conflict.



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In addition, we identified seven individuals who had outside activities, individually or in aggregate, with an estimated commitment of 150 hours or more per year. Certain outside activities, individually or in the aggregate, may represent a sizeable time commitment. While officer leaders are in the best position to determine whether the time commitment for outside activities would negatively impact operations, in some instances, a second review by the UT System ethics officer may be warranted, and depending on the facts and circumstances, might possibly include the need for a management plan. Currently, there is no threshold in INT129.1 that might automatically trigger a mandatory second look by the UT System ethics officer before an outside activity is started.

The observation described above is considered a **medium-level** finding in accordance with UT System's Internal Audit finding classification system.

**Recommendation:** Management should identify and review higher risk requests for outside compensated activities that exceed a risk-based dollar amount. Such activities should undergo a secondary review by the UT System ethics officer to ensure the potential risks are evaluated and adequately addressed.

With respect to conflict of commitment represented by outside activities, management should consider establishing a risk-based hour threshold that would trigger a mandatory second review by the UT System ethics officer.

UT System Administration policy INT129.1 could be updated to include the thresholds described above. Any updates to policy need to be clearly communicated to UT System employees and System Administration office leaders.

**Management's Response:** *As indicated in the first management response, management intends to amend UTS180. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation.*

*Management concurs with System Audit's recommendation regarding highly compensated outside activities. To the extent that policy changes do not affect this issue, management will explore the feasibility of creating a software based "check" where the ethics officer is notified when a requested outside activity exceeds some pre-determined threshold.*

*With respect to conflicts of commitment, to the extent that policy changes do not affect this issue, management will explore the feasibility of creating a software based notification to the requesting employee's manager so that the manager is fully informed regarding the total aggregate amount of requested outside activity.*

**Anticipated Implementation Date:** *Policy revision efforts will begin immediately. We anticipate completion of the policy revision effort within six months [July 31, 2018].*

### **Training**

UTS180 and both INT129 policies require training for those responsible for approving and managing outside activities and interests. Systemwide Compliance offered training on UTS180 and INT129 disclosures to all UT System Administration employees. Training was provided once in January 2017, and twice in February 2017, and attendance was tracked. Attendance records indicate that 114 individuals completed the training. Separately, training was provided to executive officers on January 10, 2017, during an executive officer meeting.



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There were 63 individuals that were either listed as contract managers for an RFP or participated in a procurement of one of the 10 tested contracts. Twenty-three (or 37%) attended training. We also reviewed training records to determine whether executive officers as

Table 8: *Training Attendance*

Summary	Executive Officers and Chancellor	Other System Administration Office Leaders	Other Leaders at System Administration	Attorneys Trained
Attended Training	12	10	28	7
Did not attend	5	12	74	27
Total	17	22	102	34
Percent that had Training	70.6%	45.5%	27.5%	20.6%

defined by INT129.1, other System Administration leaders, and attorneys had attended training, as these individuals are more likely to be involved in procurement activities and approving and managing outside activities and interests. As indicated in Table 8 above, it appears several individuals, who likely could have benefitted from training, did not elect to take training.

Currently, training records are not monitored to validate that all individuals likely to benefit from training received training. Also, the policy is worded such that the minimum training requirement is for those responsible for approving and monitoring outside activities and interests. All direct reports to administrative office leaders should also receive training, as they too are most likely to be involved in approving and monitoring outside activities and interests.

In reviewing the disclosures from UT System Administration employees, we identified 173 individuals that logged into the Outside Activity Portal, started the disclosures process (which was likely for a “No Activity” disclosure) but did not complete their disclosures. In addition, it appears many individuals that disclosed in CY 2017 for CY 2017, may have intended to disclose for CY 2016, as many of these disclosures were made during the three-month reporting window in CY 2017 for CY 2016. While there is an extensive frequently asked question section, there is no documented training manual or job aids that users could refer to while they are attempting to complete a disclosure.

The observation described above is considered a **medium-level** finding in accordance with UT System’s Internal Audit finding classification system.

**Recommendation:** To ensure that training requirements are met and that employees are aware of and understand their responsibilities with respect to conflicts of interest and commitment, management should develop a process to identify individuals that should attend training. INT129.1 may also need to be updated, as the training is only required for those responsible for approving and managing outside activities and interests. Training should be expanded to include all administrative heads of System Administration offices and all employees involved in procurement activities. Periodic refresher training should also be considered.

**Management’s Response:** *As indicated in the first management response, management intends to amend UTS180. The training issues discussed in this recommendation will be heavily impacted by the anticipated policy revisions. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation.*

*Further, any changes to policy will necessitate training to ensure that employees are adequately informed regarding the new policy.*

**Anticipated Implementation Date:** *Policy revision efforts will begin immediately. We anticipate completion of the policy revision effort within six months [July 31, 2018].*



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**UTS180 and UT System Administration Policies**

In general, both INT129 policies contain the elements required by UTS180. However, the results of our audit indicate potential opportunities to update and clarify these policies as described below:

- **Consolidate INT129.1 and INT129.2 into a Single Policy:** Except for clarifications related to disclosures required of those involved in procurement activities and executive officers, INT129.1 and INT129.2 are identical and could be consolidated into a single policy.
- **Chancellor Approval of Certain Outside Activities:** Currently, INT129.1 requires the Chancellor to approve any outside activity, “regardless of circumstances,” for individuals involved in outside activities that are more than eight hours per week. The intent was likely intended to be limited to individuals whose outside activities take place during regular working hours and not necessarily intended to apply to all employees who have taken second jobs that occur during weekends or outside of regular working hours. While such activities should require direct supervisor approval, receiving Chancellor approval does not appear to be necessary in such circumstances.
- **Specifically include Administrative Heads of UT System Administration Offices in the Scope of Individuals Required to Complete Annual Disclosures:** UTS129.1 describes an executive officer as all individuals who report directly to a president or Chancellor (other than administrative support positions) and any employee who exercises broad and significant discretion over key Institution or System functions. The second part of the definition is not sufficiently clear. It is likely that most, if not all, administrative office leaders are involved in procurement activities. Audit results indicate that not all such individuals are completing annual disclosures. To add clarity, this policy could be updated to include administrative heads of UT System Administration offices in the scope of individuals required to complete annual disclosures.
- **Prior Annual Approval of Outside Activities:** While the INT129 policies require prior approval for outside activities, they do not make a clear reference that prior approval is to be obtained annually. UTS180 states that that institutional policies are to require prior annual approval.
- **Bi-annual reporting from the institutions:** While Systemwide Compliance is working with the UT institutions to gather data on a bi-annual basis as required by UTS180, the frequency of obtaining this information may be unnecessary. Reducing the distribution frequency could reduce the administrative burden for the institutions without increasing risk.

The observation described above is considered a **medium-level** finding in accordance with UT System’s Internal Audit finding classification system.

**Recommendation:** While UT System Administration policies include the key requirements of UTS180, opportunities exist to update and clarify current policies. To pursue this end, management should consider:

- Consolidating INT129.1 and INT129.2 into a single policy;
- Clarifying that an approved outside activity should also include a related annual disclosure since estimated commitment and compensation from an approved outside activity could be different from what was actually realized;
- Updating the policy regarding the Chancellor’s approval for outside activities for individuals involved in outside activities that are more than 8 hours per week be limited to those employees whose outside activities take place during regular work hours;



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- Updating the policy to assigning approval to office administrative leaders for employees that would like to work a second job outside of normal working hours (i.e., weekends and/or outside of normal working hours);
- Clarifying the policy to include administrative heads of offices along with executive officers as individuals required to complete annual disclosures;
- Clarifying the policy, as consistent with UTS180, to clearly require that prior approval is to be obtained annually. UTS180 specifically states that that institutional policies are to require prior annual approval; and
- Limiting frequency of disclosures by the UT institutions to once per year.

**Management's Response:** *As indicated in the first management response, management intends to amend UTS180. Management intends to address each issue raised in this recommendation in the policy revision process. Amending a UTS is a collaborative process between UT System Administration and each affected UT institution. Therefore, it is not possible for management to guarantee any particular outcome. However, management appreciates the recommendations of System Audit and intends to fully address the issues raised by these recommendations during the policy revision process.*

**Anticipated Implementation Date:** *Policy revision efforts will begin immediately. We anticipate completion of the policy revision effort within six months [July 31, 2018].*