

Athletics Footwear and Apparel

Intercollegiate Athletics



January 2018

**The University of Texas at Austin
Office of Internal Audits
UTA 2.302
(512) 471-7117**

**The University of Texas at Austin
Institutional Audit Committee**

Mr. William O'Hara, External Member, Chair
Dr. Gregory Fenves, President
Dr. Maurie McInnis, Executive Vice President and Provost
Ms. Patricia Ohlendorf, Vice President for Legal Affairs
Dr. Daniel Jaffe, Vice President for Research
Dr. Soncia Reagins-Lilly, Vice President for Student Affairs and Dean of Students
Mr. Darrell Bazzell, Senior Vice President and Chief Financial Officer
Ms. Mary Knight, CPA, Associate Vice President for Finance
Mr. Paul Liebman, Chief Compliance Officer, University Compliance Services
Mr. Cameron Beasley, University Information Security Officer
Ms. Christine A. Plonsky, Women's Athletics Director and Executive Senior Associate Athletics
Director for External Services
Mr. Tom Carter, External Member
Ms. Susan Whittaker, External Member
Ms. Liz Yant, External Member
Mr. Michael Vandervort, Chief Audit Executive, Office of Internal Audits
Mr. J. Michael Peppers, Chief Audit Executive, University of Texas System Audit Office

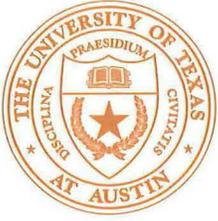
**The University of Texas at Austin
Office of Internal Audits**

Chief Audit Executive:	Michael Vandervort, CPA
Associate Director:	Jeff Treichel, CPA
Assistant Director:	*Angela McCarter, CIA, CRMA Chris Taylor, CIA, CISA
Audit Manager:	Brandon Morales, CISA, CGAP
Auditor IV:	Cynthia Martin-Hajmasy, CPA
Auditor III:	*Bobby Castillo Bill Furman, CIA Stephanie Grayson Kerri Jordan Miranda Pruett, CFE
Auditor II:	*Jason Boone
Auditor I:	Ryan Kothlow
IT Auditor II:	Mike McIntosh
IT Auditor I:	Mark Boze

* denotes project members

This report has been distributed to Internal Audit Committee members, the Legislative Budget Board, the State Auditor's Office, the Sunset Advisory Commission, the Governor's Office of Budget and Planning, and The University of Texas System Audit Office for distribution to the Audit, Compliance, and Management Review Committee of the Board of Regents.

**Athletics Footwear and Apparel
Project Number: 17.009**



OFFICE OF INTERNAL AUDITS
THE UNIVERSITY OF TEXAS AT AUSTIN

1616 Guadalupe Street, Suite 2.302 • Austin, Texas 78701 • (512) 471-7117 • FAX (512) 471-8099

January 17, 2018

President Gregory L. Fenves
The University of Texas at Austin
Office of the President
P.O. Box T
Austin, Texas 78713

Dear President Fenves,

We have completed our audit of Athletics Footwear and Apparel. Our scope included reviewing ordering, shipping and receiving processes during FY 15-16.

Based on the audit procedures performed, we conclude that Intercollegiate Athletics does not appear to have sufficient procedures in place to ensure adequate controls over ordering and shipping and receiving operations. However, opportunities for improvements were noted regarding internal control procedures. Our audit report provides detailed observations for the area under review. Suggestions are offered in the report for improvement in the existing control structure.

We appreciate the cooperation and assistance of Intercollegiate Athletics throughout the audit and hope that the information presented herein is beneficial.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Vandervort".

Michael W. Vandervort, CPA
Chief Audit Executive

cc: Institutional Audit Committee Members
Mr. Christopher Del Conte, Vice President and Athletics Director, Intercollegiate Athletics
Ms. Christine Plonsky, Women's Athletics Director and Executive Senior Associate Athletics Director for External Services, Intercollegiate Athletics
Ms. Lori Hammond, Associate Athletics Director, Risk Management and Compliance Services, Intercollegiate Athletics
Mr. William O'Hara, Chair, Institutional Audit Committee
Ms. Patricia Ohlendorf, Vice President for Legal Affairs
Mr. Carlos Martinez, Chief of Staff, Office of the President
Mr. Jeff Treichel, Associate Director, Office of Internal Audits



TABLE OF CONTENTS

Executive Summary	1
Background	2
Scope, Objectives, and Procedures	2
Audit Results.....	2
Conclusion	7
Appendix.....	8



EXECUTIVE SUMMARY

Conclusion

Based on our audit, we conclude that Intercollegiate Athletics (UT Athletics) does not have sufficient procedures in place to ensure adequate controls over the ordering process, and shipping and receiving operations. In addition, upon speaking with relevant staff The Office of Internal Audits (Internal Audits) determined that certain internal controls did not coincide with controls identified in the Handbook of Business Procedures. Four opportunities to strengthen controls were identified regarding separation of duties, document retention, inventory tracking, and distribution.

Summary of Recommendations

Each issue has been ranked according to The University of Texas System Administration Audit Issue Ranking guidelines. Please see the Appendix for ranking definitions. Internal Audits identified the following notable issues:

- Separation of duties (Audit Issue Ranking: High)
- Document retention (Audit Issue Ranking: High)
- Inventory Tracking (Audit Issue Ranking: High)
- Distribution of Footwear and Apparel (Audit Issue Ranking: High)

Management agrees with our observations and has provided corrective action plans which are expected to be implemented on or before September 1, 2018.

Audit Scope and Objective

The scope of this audit included the Athletic Equipment Agreement (Agreement) between UT Athletics and Nike from September 1, 2015 – August 31, 2016. The audit objective was to review the ordering process and shipping operations for UT Athletics and evaluate the completeness, accuracy, and existence of footwear, apparel, and equipment inventory.

Background Summary

The Agreement between The University of Texas at Austin (UT Austin) and Nike includes annual payments from Nike to UT Austin but also allows Nike to be the sole supplier of certain athletic footwear and apparel. Nike subsidizes a certain amount of funds to UT Athletics that is outlined in the Agreement for ordering the footwear and apparel. The footwear and apparel is for use in the UT Athletics programs where teams compete in NCAA Division I sports and must be worn by coaches, staff, and student-athletes during competition. The agreement became official in 2000 and was extended in 2015.



BACKGROUND

The Athletic Equipment Agreement (Agreement) is between The University of Texas at Austin (UT Austin) and Nike, and includes annual payments from Nike to UT Austin but also allows Nike to be the sole supplier of certain Intercollegiate Athletics (UT Athletics) footwear and apparel. Nike subsidizes an amount of funds to UT Athletics that is outlined in the Agreement for ordering the footwear and apparel. The subsidized amount increases incrementally every year and is allocated to each sport by using a method involving forecasted needs and input from the athletic directors. Footwear and apparel is for use in the UT Athletics programs where teams compete in NCAA Division I sports and must be worn by coaches, staff, and student-athletes during competition. The agreement became official in 2000 and was extended in 2015.

SCOPE, OBJECTIVES, AND PROCEDURES

The scope of this audit included the Agreement between UT Athletics and Nike from September 1, 2015 – August 31, 2016. The audit objective was to review the ordering process and shipping operations for UT Athletics and evaluate the completeness, accuracy, and existence of footwear, apparel, and equipment inventory.

To achieve these objectives, The Office of Internal Audits (Internal Audits):

- Reviewed the Agreement to determine the guaranteed amount owed to UT Austin;
- Tested a sample of athletics programs (Football, Men's Basketball, Volleyball, Track and Field, and Nike Elite¹) to evaluate the completeness, accuracy, and existence of ordering and shipping processes;
- Reviewed applicable policies and procedures;
- Reviewed relevant financial documents; and
- Corresponded with relevant staff.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and with *Government Auditing Standards*.

AUDIT RESULTS

Based on the procedures performed, UT Athletics does not have sufficient procedures in place. However, opportunities for improvement were noted to improve the internal procedures.

Four recommendations were made in the following areas: separation of duties, document retention, inventory tracking, and distribution of footwear and apparel.

¹ Nike Elite is reserved for coaches and Executive staff only. The coaches receive a certain amount of credit to order Nike apparel. The athletics directors choose the amount allotted to the coaches.



Separation of Duties

Audit Issue Ranking: High

Four (80%) of the five athletics programs tested included staff employees placing and receiving orders, essentially allowing them to control the entire purchasing process. Staff members were not aware that the same individual should not be placing and receiving orders. Without separating these responsibilities, there is an increased risk of mishandling and misappropriation of UT Athletics assets.

Section 7.4 of *UT Austin's Handbook of Business Procedures (HBP)* states, "...The individual (receiver) receiving the shipment must be different than the buyer."

Recommendation 1: UT Athletics management should ensure separation of duties throughout the ordering process.

Management's Response and Corrective Action Plan: The Equipment staff will ensure that an individual separate from the individual placing the order in the Nike Gameday system signs off once the order (or individual items from a larger order) is received. The Equipment staff will generate a pdf or Excel document of the order placed in Gameday and have the other individual (e.g., director of operations for sport program, other full or part-time equipment staff, individual with department that requested order, etc.) sign off acknowledging receipt of the items by including a signature/initials and date received by the items on the order form. This documentation will be scanned and saved in a master Box folder by the Equipment staff member responsible for the sport/department or a designated individual within that particular sport program, department, or outside group. A master Box folder is being created for storing documentation by sport/department in the future.

It is important to note that the process for how Nike requires Texas Athletics to place orders (a year an advance for larger sport orders) and how Nike distributes the orders complicates this process. One single order is rarely delivered in the same box and orders from various areas may be combined in a shipment. So multiple individuals may have placed an order for the items in a shipment. Additionally, Nike does not consistently include a packing slip in the shipment and it is common that the packing slip is inaccurate. Texas Athletics intends to engage in discussion with Nike representatives to explore ways to improve their ordering and shipping procedures.

Representatives from the Equipment staff along with a representative from the Risk Management and Compliance staff plan to benchmark another program's practices in this area early in the spring 2018 semester to see if additional enhancements and efficiencies may be made.



Responsible Person: Chip Robertson, Assistant Athletics Director for Equipment Operations

Planned Implementation Date: September 1, 2018 to allow sufficient time to educate and train the affected individuals.

Post Audit Review: Internal Audits will follow-up in the first quarter FY19.

Document Retention

Audit Issue Ranking: High

Internal Audits could not independently confirm purchases reconciled due to insufficient document retention for four (80%) of the five athletics programs tested. The departments provided a spreadsheet from Nike that appears to be a statement of footwear and apparel ordered for the department, but Internal Audits could not reconcile relevant purchase orders to Nike's spreadsheet. If supporting documentation is not maintained and reconciled, then there is an increased risk of loss of UT Athletics assets.

Section 20.6.1 of *UT Austin's HBP* states, "The University of Texas at Austin is required to keep one of every record created in the course of university business whether the record is created and maintained within the university or by a private contractor to the university."

Also, *Section 20.3.3.B* states, "The following financial records are retained in the department:

- Departmental budgets and budget work papers
- Inventory reports
- Reconciliations"

Recommendation 2: UT Athletics management should ensure relevant financial records for purchases are retained by the department.

Management's Response and Corrective Action Plan: UT is required to place all Nike orders through the Nike Gameday system. The system records all purchases, returns, and balances for the department overall and separately for each department that has an allotment.

Regardless, the Equipment staff is enhancing their documentation and retention of such documentation. The Equipment staff will save all purchase orders, documentation of receipt of orders, documentation of returns, invoices, etc. in a shared master UT Box folder.

Currently, Nike sends invoices to Chip Robertson, Assistant Athletics Director for Equipment Operations, when a sport program or department does not have an allotment or goes over their allotment. Chip sends the invoices to the appropriate individual identified as responsible for the sport program, department, or external



group. The individual within the sport program, department, or external group is responsible for handling the invoice and/or coordinating with the Equipment staff on returns. A process will be developed that will now require the individual within the sport program, department, or external group to save documentation of payment, returns, etc. in the shared master UT Box folder by either uploading directly or providing to the Equipment staff so they may upload.

Representatives from the Equipment staff along with a representative from the Risk Management and Compliance staff plan to benchmark another program's practices in this area early in the spring 2018 semester to see if additional enhancements and efficiencies may be made.

Responsible Person: Chip Robertson, Assistant Athletics Director for Equipment Operations for document retention by Equipment staff

Planned Implementation Date: September 1, 2018 to allow sufficient time to educate and train the affected individuals.

Post Audit Review: Internal Audits will follow-up in the first quarter FY19.

Inventory Tracking

Audit Issue Ranking: High

Four (80%) of the five athletics programs tested do not appear to conduct periodic inventory of footwear and apparel. Internal Audits reviewed the internal procedures as well as interviewed relevant staff and it appears staff were not aware of the requirement to conduct periodic inventory. UT Athletics has purchased ACS Athletics Management Software² to maintain inventory; however, internal procedures do not require departments to utilize this software. If a periodic inventory is not accurately tracked, then there is an increased risk of loss of UT Athletics assets.

Section 16.1.C. of *UT Austin's HBP* states, "University property is state property and may be used for official purposes.... The unit administrator or custodian may delegate the responsibility for the proper care, maintenance and safekeeping of property assigned to his or her custody. To ensure adequate separation of duties, a noncustodian or inventory contact must be appointed to assist the unit administrator in fulfilling his or her responsibilities. Unit administrators must establish internal controls that ensure the following:

- Inventory is taken periodically with documented changes and reconciled.
- All inventory services policies and procedures are followed and adapted as appropriate to meet each department's needs."

² ACS Athletics Management Software: <http://www.acsathletics.com/index.html>
ACS offers multiple services for athletics including inventory management with customizable reports.



Recommendation 3: UT Athletics management should ensure periodic inventory is conducted and reconciled. The ACS Athletics Management Software is an available software system currently in place and can assist with this recommendation.

Management's Response and Corrective Action Plan: Representatives from the Equipment staff along with a representative from the Risk Management and Compliance staff plan to benchmark another program's practices in this area early in the spring 2018 semester. The program we intend to benchmark previously used ACS and has transitioned to another sports inventory tracking system called Sportsoft. We plan to explore both systems and determine what best fits our needs.

It is important to note that in years subsequent to the year audited, the Equipment staff made attempts to utilize the ACS software system and does in some sport programs (football, men's and women's basketball, baseball and track), but ACS customer support has historically not been responsive to requests from the staff for assistance with the software so it has proven to be challenging to utilize it consistently. We will work with ACS management on this issue since it is a component of our contractual agreement with ACS, but do still intend to explore other options as well.

Responsible Person: Chip Robertson, Assistant Athletics Director for Equipment Operations

Planned Implementation Date: March 1, 2018 for benchmarking; September 1, 2018 for implementation of inventory system implementation

Post Audit Review: Internal Audits will follow-up in the first quarter FY19.

Distribution of Footwear and Apparel

Audit Issue Ranking: High

Four (80%) of the five athletics programs tested did not maintain documentation for the distribution of footwear and apparel. Internal Audits reviewed the internal procedures as well as interviewed relevant staff and it appears staff were not aware to document the distribution of footwear and apparel. If the receipt of goods transfer is not properly documented, then there is an increased risk of loss or misuse of UT Athletics assets.

Section VII.A.I.a of UT Austin's *Handbook of Operating Procedures 3-1021* states, "Department management must establish and maintain a system of internal controls which provides reasonable assurance improprieties are prevented and detected."

As a leading practice to establish and maintain internal controls as described above, transfers of footwear and apparel should be documented and maintained for proper recordkeeping.



Recommendation 4: UT Athletics management should ensure that transfers are documented and signed by individuals issuing and receiving footwear and apparel.

Management's Response and Corrective Action Plan: Representatives from the Equipment staff along with a representative from the Risk Management and Compliance staff plan to benchmark another program's practices in this area early in the spring 2018 semester.

The interim plan for sport programs is to have student-athletes and sport staff sign off at end of the semester or year (whichever is determined most appropriate for that sport) of all items they received during that semester/year. This documentation will be saved in the master Box folder for that sport.

For departments and outside groups that order and do not have an allotment, the Equipment staff will rely on the point of contact for that department or outside group to provide documentation of receipt of and transfer of the item. This documentation should be provided to the appropriate Equipment staff to be saved in the master Box folder or uploaded directly into the Box folder by the point of contact for that department or outside group when possible.

Responsible Person: Chip Robertson, Assistant Athletics Director for Equipment Operations

Planned Implementation Date: March 1, 2018 for benchmarking; September 1, 2018 for implementation of inventory system implementation

Post Audit Review: Internal Audits will follow-up in the first quarter FY19.

CONCLUSION

Based on our audit, we conclude that UT Athletics does not have sufficient procedures in place to ensure adequate controls over the ordering process, and shipping and receiving operations. In addition, upon speaking with relevant staff Internal Audits determined that certain internal controls did not coincide with controls identified in the Handbook of Business Procedures. Four opportunities to strengthen controls were identified regarding separation of duties, document retention, inventory tracking, and distribution.

In accordance with directives from The University of Texas System Board of Regents, the Office of Internal Audits will perform follow-up procedures to confirm that audit recommendations have been implemented.



APPENDIX

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 Austin, 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 Austin 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 Austin 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 Austin 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 Austin 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.