



May 17, 2018

Mr. Anthony Cucolo, Interim Executive Director
John Ben Shepperd Public Leadership Institute
The University of the Permian Basin
4901 E. University Boulevard
Odessa, Texas 79762

Dear Mr. Cucolo:

We have completed our audit of the John Ben Sheppard Public Leadership Institute, a component of UT Permian Basin. This audit was performed as part of our fiscal year 2017 Audit Plan and was conducted in accordance with guidelines set forth in UTS129, the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, and *Generally Accepted Government Auditing Standards (GAGAS)* as issued by the Comptroller General of the United States.

The objective of our audit was to test and evaluate the effectiveness of the internal controls over the financial processes and assets; and to evaluate compliance with UT System and UTPB policies and procedures.

In the course of our audit, we noted serious issues in the following areas: misuse of resources; lack of accurate and reliable internal records; lack of controls over assets; unreconciled gift revenue; conflicts of interest; and relationships with outside organizations, including no clear delineation between some of the activities of the John Ben Sheppard Public Leadership Institute and those organizations.

We wish to express our appreciation to the management and staff of UT Permian Basin for the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Glenn S. Spencer".

Glenn Spencer, CPA
Chief Audit Executive

cc: Dr. Sandra Woodley, President
Mr. Clay Finley, Associate Director, John Ben Shepperd Public Leadership Institute
Mr. Mark McGurk, CPA, Vice President for Business Affairs
Mr. J. Michael Peppers, CPA, UT System Chief Audit Executive

The University of Texas of the Permian Basin

John Ben Shepperd Public Leadership Institute **Audit Report**

May 2018



Office of Internal Audit
4901 E. University Boulevard
Odessa, Texas 79762

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Executive Summary

The UT Permian Basin (UTPB) Office of Internal Audit has completed its audit of the John Ben Sheppard Public Leadership Institute (Institute). This audit was conducted in accordance with guidelines set forth in UTS129 and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, and *Generally Accepted Government Auditing Standards* (GAGAS).

From the results of our work, we noted a number of issues that require management's attention. These issues fall within one or more of the following broad categories:

- Misuse of University resources
- Incomplete internal records
- Assets not recorded nor capitalized
- Unreconciled gift revenue
- Outside organizations
- Conflicts of interest

Our specific findings and recommendations are detailed in the section entitled "Current Year Audit Results".

Background

The mission of the Institute is to "provide young Texans an education for and about leadership, ethic and public service". The Institute is a component of UTPB and sponsors various programs and outside speakers to assist in improving public leadership skills and to educate students and the public on the importance of ethics and public service. The Institute includes the Presidential Archives and Leadership Library as well as the former Odessa home of Presidents George H.W. Bush and George W. Bush.

Audit Objectives

The purpose of our audit was to test and evaluate the effectiveness of the internal controls over the financial processes and assets; and to evaluate compliance with UT System and UTPB policies and procedures.

Scope and Methodology

The scope of the audit encompassed activity in fiscal years 2016 and 2017 and included the following procedures:

- Gained an understanding of the Institute’s purpose and function
- Reviewed segregation of duties
- Tested revenue and expense transactions
- Tested inventory and capital assets
- Reviewed Institute’s compliance with UTPB and UT System policies
- Reviewed affiliations with outside organizations

Our audit was conducted in accordance with the Institute of Internal Auditor’s *International Standards for the Professional Practice of Internal Auditing* and *Generally Accepted Governmental Auditing Standards* (GAGAS).

Ranking Criteria

All findings in this report are ranked based on an assessment of risk factors, as well as the probability of a negative occurrence if the risk is not adequately mitigated. The criteria for the rankings are as follows:

Priority – An issue identified by an internal audit, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.

High - A finding identified by internal audit that is considered to have a medium to high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level.

Medium – A finding identified by internal audit that is considered to have a low to medium probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level.

Low – A finding identified by internal audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level.

Current Year Audit Results

1. Misuse of University Resources

- A. While initial setup and proofing fees were mostly paid by outside parties, UTPB paid for the printing of two books authored by the Institute’s former Executive Director (Director).

Six hundred copies of the first book “*The Americanism of John Ben Shepperd*” were published in late 2015 using appropriated State funds, which is not allowed according to

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Texas Government Code 2113.107. Total production cost paid by UTPB, including final editing charges of \$639, came to \$11,727 (\$11,587 using State funds).

Revenue from this book's sales and royalties were forwarded, at the Director's direction, to the John Ben Shepperd Public Leadership Foundation (Foundation), an outside non-UTPB organization. This was in error since UTPB paid for the book using appropriated State funds, and all revenues belonged to UTPB. The amounts – those that we are aware of – that were erroneously forwarded to the Foundation totaled \$4,729. This amount includes \$4,479 for the books, and an additional \$250 from the sale of other items purchased with non-State funds.

For this first book, the Institute cannot account for all of the books that were purchased as there are no internal records on books sold or given as gifts. The actual reported revenue is less than the estimated revenue. The Institute states that some books were sold through the Friends of the Archives bookstore operating on the premises, and others were given away. In addition, the Director conducted book signing events for this book – however, we are unable to determine the number of books sold in this manner, nor the disposition of all revenues that were collected.

- B. A second book "*Destination Greatness – Creating a New Americanism*" was published in late 2016. Six hundred copies of this book were printed, the cost of which was paid with gift funds, which is not prohibited by Texas Government Code 2113.107. The total cost for all six hundred copies came to \$9,188. We were unable to completely account for all of the books as there is a small discrepancy between JBS Institute records and actual books on hand.

We verified that the Director sold an unknown number of copies of this second book at book signing events and kept the profits, which is not allowed under Texas Penal Code 39.02 (a)(2) and the State of Texas Ethics Policy. After the onset of our audit, the Director deposited \$1,780 to UTPB as the "profit" that he had received. However, we were unable to confirm as to whether or not this was the correct amount due to the lack of reliable internal records. While some royalties from online sales did go to UTPB, we were again unable to determine if these amounts were accurate based upon a lack of reliable records.

- C. The Director has utilized UTPB resources (website and email) in order to promote the sale of books, including book signing events, from which he generated a personal profit.
- D. The Institute sponsors the Texas Leadership Forum annually. Up through 2017, this event has been held in Austin every year. This is a very large and expensive undertaking and is paid for with gift funds. In both 2016 and 2017, the cost for each year came to over \$60,000 (including alcohol charges of \$4,857 and \$2,430 for each year, respectively). In 2016 and 2017, we noted two suites being reserved each year at a cost of \$599 per night (for two nights) before local taxes. One suite was occupied by a representative of the Foundation, the other suite was occupied by the Director. When questioned, we were informed that the suites were necessary for entertaining guests.

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Normally, UTPB cannot exceed the established maximum rate for lodging – for both employees and guests. In 2016, the maximum daily rate for using non-State funds in Austin was \$183. However, in some instances a higher rate is allowed, for example, when there is no other available lodging nearby. In all instances, discretion and common sense should prevail. The rate of \$599 for each of the two suites came to 327% higher than the UTPB maximum lodging rate, and does not constitute an appropriate use of University resources. The fact that gift funds were used does not minimize this finding. UTPB has a fiduciary duty to conserve and wisely spend all funds, no matter their original source.

Assessed Level of Risk: High

Recommendation

- A. All sales revenue and royalties from sales of the two books should go to UTPB. The Foundation should reimburse UTPB for all sales revenue and royalties received for the first book “*The Americanism of John Ben Shepperd*”.
- B. The Institute should maintain accurate and detailed records of all future financial transactions, including book sales and royalties.
- C. UTPB should implement more effective internal control procedures that preclude State funds from being used for prohibited purposes.
- D. UTPB should implement more effective internal control procedures and general oversight that preclude employees’ inappropriate use of the website and email services for personal gain.

Management’s Response

- A. We concur. The John Ben Shepperd Public Leadership Foundation has agreed to reimburse the John Ben Shepperd Public Leadership Institute in the amount of \$4,729.
- B. We concur. The John Ben Shepperd Public Leadership Institute will maintain detailed records of all future financial transactions, and, out of an abundance of caution, will cease selling books.
- C. We concur. The John Ben Shepperd Public Leadership Institute will implement closer internal review over the use of state funds and will work with Purchasing and Accounting whenever there is doubt about the appropriate use of state funds, requesting specific guidance.
- D. We concur. The John Ben Shepperd Public Leadership Institute will ensure that staff are aware that University resources, including UTPB websites, email, telephones, etc., cannot be used in any way for personal gain.

Implementation Date

- A. No later than May 31, 2018
- B. Immediately
- C. No later than May 31, 2018
- D. No later than May 31, 2018

Person Responsible for Implementation

- A. Clay Finley, Associate Director
- B. Anthony Cucolo, Interim Executive Director
- C. Clay Finley, Associate Director

D. Clay Finley, Associate Director

2. Incomplete Internal Records

As noted under Finding No.1, internal records of the Institute were frequently non-existent or incomplete in regard to the disposition of books purchased with University funds.

We also noted that another outside, non-UTPB organization, The Presidential Museum (aka “Friends of the Presidential Archives”) operates a gift shop on the premises and sells, among other items, both of the books authored by the Director. Again, there are no sales records for either book.

Assessed Level of Risk: High

Recommendation

Using proper segregation of duties, the Institute should maintain complete, accurate and detailed records of all financial transactions, including all revenue and royalties from book sales. Monthly reconciliations should be performed that compare reported book sales and gifts to revenues/royalties collected and deposited, and to actual remaining books on hand.

The Friends of the Presidential Archives should be required to maintain complete and accurate records of all sales generated from all books and/or other items owned by UTPB. All related data, along with actual receipts and collections, should be made available to the Institute for revenue deposit and reconciliation purposes.

Management’s Response

We concur. The Institute will maintain complete records of all financial transactions, as noted above, and will immediately cease the sale of books. As new staff are hired, appropriate segregation of duties will be implemented and maintained for financial transactions.

All Institute-owned books have already been withdrawn from the Friends of the Presidential Archives gift shop; Institute-owned books and materials will not be offered for sale in the future. A plan will be developed for the disposal of remaining inventory; that plan will be submitted to UTPB’s Vice President for Business Affairs before implementation.

Implementation Date

Immediately

Person Responsible for Implementation

Anthony Cucolo, Interim Executive Director

3. Assets Not Recorded Nor Capitalized

When the Presidential Museum (Friends of the Presidential Archives) conveyed all museum assets to UTPB in 2011, no detailed listing or valuation of assets was provided.

The Institute has attempted to catalogue its assets, but being a large undertaking in terms of effort, has only partially done so. This represents a serious internal control weakness as the estimated value of the assets housed in the museum are quite substantial; with many of the individual items being irreplaceable.

Additionally, UTPB has not capitalized the museum assets and Presidential Archives, including the Bush Home, as required by the Texas State Comptroller for “works of art” and “historical treasures”. Consequently, the net value of the assets is not reflected on the University’s financial statements.

Assessed Level of Risk: High

Recommendation

All assets of the Presidential Museum and Archives should be identified and catalogued in order to increase security against loss or theft, and to assist in developing an estimated value for the collection as a whole.

As required by the Texas State Controller, UTPB should capitalize the museum and library archives, including the Bush Home, using the guidelines of Governmental Accounting Standards Board Statement No. 34 (GASB 34). All donations of works of art or historical treasures should be recognized as revenue according to Governmental Accounting Standards Board Statement No. 33 (GASB 33).

Management’s Response

We concur. The Institute will submit a specific budget request for funds to prepare an inventory of all items in the Presidential Archives. Those funds will be used to hire a contractor to catalogue and photograph the artifacts, with an estimated dollar value being obtained from outside sources. When complete, this information will be forwarded to Accounting for capitalization in the financial statements of the university.

Implementation Date

August 31, 2019

Person Responsible for Implementation

Anthony Cucolo, Interim Executive Director

4. Unreconciled Gift Revenue

We were unable to reconcile gift revenue deposited by the Institute to gifts recorded by the UTPB Development Office. There are cumulative discrepancies of \$2,029 for both 2016 and 2017. Records maintained by Development show \$2,029 more in total recorded gifts than what

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accounting records in PeopleSoft indicate. This may be due to coding errors using incorrect cost centers, timing differences between years, or other unknown reasons. Of particular concern is the more than \$8,700 in donor gifts recorded by Development in 2016 over what is reflected in PeopleSoft.

Assessed Level of Risk: Medium

Recommendation

The Institute should work with both Accounting and Development to determine the reasons for the discrepancies as noted, and to verify that all gifts to the Institute were properly receipted and deposited. Additionally, the Institute should periodically reconcile its deposited gift revenue to that recorded by Development in order to avert or minimize future errors.

Management's Response

We concur. The Institute has requested and received reports from Development and compared those reports with its own records, which had previously been reconciled with Accounting's records in PeopleSoft. Through this review, the Institute has discovered several discrepancies caused by Development and Accounting reporting transactions in different financial years, and will continue to work with both departments to ensure the accuracy of future records of financial transactions.

Implementation Date

Immediately

Person Responsible for Implementation

Clay Finley, Associate Director

5. Outside Organizations

There is no written agreement between UTPB and The Friends of the Presidential Archives, which operates a gift shop at the Institute, selling various items, including the books authored by the Director and paid for with University funds. This organization also pays college age students (not student workers employed by UTPB) to work on Saturdays so that the Presidential Museum and Archives can be open to the public. The revenue to pay the workers on Saturdays is reportedly generated from gift shop sales and donations.

The use of non-University employees in operating UTPB facilities and the lack of a written agreement between the two entities can lead to issues involving rights and responsibilities; as well as liabilities arising from personal injury, damage, theft or other loss.

Assessed Level of Risk: High

Recommendation

UTPB should execute a formal written agreement with the Friends of the Presidential Archives, in which the rights, responsibilities and liabilities for each party are clearly defined.

Management’s Response

We concur. The Institute has worked with the Friends of the Presidential Archives to formalize a written agreement governing the relationship of the Friends with the University; a draft agreement has been prepared and is ready to submit for signature.

Implementation Date

Immediately

Person Responsible for Implementation

Clay Finley, Associate Director

6. Conflicts of Interest

- A. A conflict of interest arose from the Director authoring two books; initiating publication of the books, which was paid for by the University; selling the books; receiving the profits; and overseeing the record-keeping of all related activities.
- B. As previously noted in Finding 1.A., revenues rightly belonging to UTPB were instead forwarded, at the Director’s direction, to the Foundation in 2016. We also noted that the Director received a direct cash payment in 2016 from the Foundation. Contradictory reasons have been given for this payment, the purpose for which remains unclear.

Assessed Level of Risk: High

Recommendation

While UTPB already has a conflict of interest policy, and annual training is required on conflicts of interest and ethics, management should maintain closer scrutiny over the internal and external activities of employees in order to eliminate, or at least minimize, any future occurrences.

Management’s Response

We concur. Institute employees will comply with all University policies governing conflicts of interest.

Implementation Date

Immediately

Person Responsible for Implementation

Anthony Cucolo, Interim Executive Director

Status of Prior Year Findings and Recommendations

N/A

Conclusion

We have noted serious issues regarding the Institute that will require management's attention in the following areas: misuse of resources; lack of accurate and reliable internal records; lack of controls over assets; unreconciled gift revenue; conflicts of interest; relationships with outside organizations; and no clear delineation between the activities of the Institute and the Foundation.