



# UT System Administration Policy Library – Policy UTS118 Statement of Operating Policy Pertaining to Dishonest or Fraudulent Activities

Responsible Officer: Executive Vice Chancellor for Business Affairs

Sponsoring Office: System Audit Office

Effective Date: February 4, 2002

Last Reviewed: October 2, 2009

Next Scheduled Review: June 3, 2011

Errors or changes to: [policyoffice@utsystem.edu](mailto:policyoffice@utsystem.edu)

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## **POLICY STATEMENT**

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Each institution has established reporting structures and responsibilities within their institution. The purpose of this statement is to establish System policy regarding internal investigations of suspected defalcation, misappropriation, and other fiscal irregularities that are supplemental to the internal administrative policies established at each institution.

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## **RATIONALE**

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Good business practice dictates that every suspected defalcation, misappropriation and other fiscal irregularity be promptly identified and investigated.

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## **SCOPE**

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All institutions and UT System Administration

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## **WEBSITE ADDRESS FOR THIS POLICY**

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<http://www.utsystem.edu/policy/policies/uts118.html>

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## **RELATED STATUTES, POLICIES, REQUIREMENTS OR STANDARDS**

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<b>UT System Administration Policies &amp; Standards</b>	<b>Other Statutes, Policies &amp; Standards</b>
<ul style="list-style-type: none"><li>• <a href="#"><i>Board of Regents' Rules and Regulations, Rule 80601</i></a></li></ul>	<ul style="list-style-type: none"><li>• <a href="#"><i>Texas Government Code, Chapter 552</i></a></li><li>• <a href="#"><i>Texas Government Code, Chapter 321.022</i></a></li><li>• <a href="#"><i>General Appropriations Act (81) Article IX, Sec. 17.05</i></a></li></ul>

	<ul style="list-style-type: none"> <li>• <a href="#">State Auditor's Office Hotline</a></li> </ul>
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## CONTACTS

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If you have any questions about UT System Administration Policy UTS 118, *Statement of Operating Policy Pertaining to Dishonest or Fraudulent Activities*, contact the following offices:

Subject	Office Name	Telephone Number	Email/URL
	System Audit Office	(512) 499-4390	<a href="http://www.utsystem.edu/aud/">http://www.utsystem.edu/aud/</a>

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## DEFINITIONS

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**Chief Administrative Officer:** The President of the institution or the Chancellor for System Administration.

**Audit Committee:** The committee at each institution and at System Administration responsible for audit oversight at that institution or System Administration.

**Compliance Office:** The department or office at each institution and at System Administration responsible for the compliance function at that institution or System Administration.

**Compliance Officer:** The individual at each institution and at System Administration responsible for directing the compliance function at that institution or System Administration.

**Director of Internal Audit:** The individual at each institution and at System Administration responsible for directing the internal audit function at that institution or System Administration.

**Director of Police:** The individual at System Administration responsible for directing the police function.

**Employee:** All personnel employed by the System including faculty, staff, residents, and student-employees.

**Institution legal advisors:** Institution personnel responsible for the coordination of legal matters with the Office of General Counsel.

**Office of General Counsel:** The office at System Administration responsible for the legal function.

**Office of Internal Audit:** The department or office at each institution and at System Administration responsible for the internal audit function at that institution or System Administration.

**State Auditor's Office:** The State Auditor is appointed pursuant to the Texas Government Code Title 3 Sec. 321.005, to investigate all custodians of state funds, disbursing agents, and department personnel.

**System:** The University of Texas System Administration and institutions, collectively.

**University Police:** The department or office at each institution and at System Administration responsible for the police function at that institution or System Administration.

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## RESPONSIBILITIES

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### Management

- Establishes and maintains a system of internal control that provides reasonable assurance that improprieties are prevented and detected.
- Ensure a link to the State Auditor's Office fraud reporting website is included on the homepage of the entity's website.
- Supports the System's fiduciary responsibilities and cooperates with law enforcement agencies in the detection, investigation, and reporting of criminal acts, including prosecution of offenders

### Office of Internal Audit

- Supervises all audits of allegations of defalcation, misappropriation and other fiscal irregularities.

- Coordinates assistance provided to state, federal, and local law enforcement agencies.
- Assists the University Police in investigations of suspected defalcation, misappropriation and other fiscal irregularities that require accounting and auditing knowledge of System records.
- Keeps its workpapers secure and limits access to only those individuals designated by the Director of Internal Audit.
- Receives relevant information on a confidential basis, subject to the provisions of the Texas Public Information Act.
- Reviews each investigation to determine if additional work needs to be done in order to provide the Audit Committee and management with a basis for taking any corrective action necessary.

#### **Director of Internal Audit**

- When appropriate, notifies the Chief Administrative Officer or his or her designee when an audit involves allegations or reveals suspected criminal activity which may constitute a felony offense.
- Consults with the Office of General Counsel or institution legal advisors about all requests for information and assistance related to investigations conducted by auditors of federal and state agencies.

#### **Chief Administrative Officer**

- Notifies the state auditor of alleged fraud related to state funds as required by Texas Government Code, Chapter 321, Sec. 321.022.
- Notifies the appropriate Executive Vice Chancellor of criminal activity, as appropriate.

#### **University Police**

- Makes the Director of Police aware of all felony fraud investigations and keeps him or her up to date.
- Coordinates criminal investigation once probable criminal activity has been detected.

#### **Chief Business Officer**

- Notifies the Executive Vice Chancellor for Business Affairs as soon as it is known that a loss has occurred for approval of all insurance and fidelity bond claims.

#### **Institution Legal Advisors**

- Coordinates assistance provided to state, federal, and local law enforcement agencies

## **Office of General Counsel**

- Coordinates assistance provided to state, federal, and local law enforcement agencies

## **Reporting Individual**

- Avoids incorrect accusations, avoids alerting suspected individuals that an audit is underway, or avoids making statements that could provide a basis for a suit for false accusation or other offenses.

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# **PROCEDURES**

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## **1. General**

**1.1** The terms defalcation, misappropriation, and other fiscal irregularities include but are not limited to any:

- a) Dishonest, illegal, or fraudulent act involving System property;
- b) Forgery or alteration of checks, drafts, promissory notes, and securities;
- c) Forgery or alteration of employee benefit or salary related items such as time cards, billings, claims, surrenders, assignments, or changes in beneficiary;
- d) Forgery or alteration of medical related items such as reports, charts, prescriptions, x-rays, billings, or claims;
- e) Forgery or alteration by employees, of student related items such as grades, transcripts, loans, or fee or tuition documents;
- f) Misappropriation of funds, securities, supplies, or any other asset;
- g) Illegal or fraudulent handling or reporting of money transactions;
- h) Acceptance or solicitation of any gift, favor, or service that might reasonably tend to influence the employee in the discharge of his or her official duties; or
- i) Destruction or disappearance of records, furniture, fixtures, or equipment where theft is suspected.

**1.2** Allegations involving scientific misconduct will be handled in accordance with the controlling institutional policies based upon the OGC Model Policy entitled "[Procedure for Dealing with Allegations of Misconduct in Science](#)".

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

**1.4** Management must support the System's fiduciary responsibilities and must cooperate with law enforcement agencies in the detection, investigation, and reporting of criminal acts, including prosecution of offenders. Every effort should be made to recover System losses.

**1.5** The Office of Internal Audit must supervise all audits of allegations of defalcation, misappropriation, and other fiscal irregularities. When an audit reveals suspected criminal activity, or an audit is initiated due to an allegation of criminal activity, the University Police must be notified immediately.

**1.6** When an audit involves allegations or reveals suspected criminal activity which may constitute a felony offense, the Director of Internal Audit shall, when appropriate, immediately notify the Chief Administrative Officer, or his or her designee, and then notification must be given to the System Director of Audits. The Director of Internal Audit shall consult with institution legal advisors or the Office of General Counsel, and the Office of General Counsel must be kept informed regarding the progress of the audit.

**1.7** The Chief Administrative Officer shall notify the appropriate Executive Vice Chancellor of criminal activity, as appropriate.

**1.8** The Director of Police must be made aware of all felony fraud investigations, and must be kept current by University Police of the progress of investigations conducted by institution police departments.

**1.9** In accordance with the Board of Regents' Rules and Regulations, Rule 80601, the appropriate Chief Business Officer will notify the Executive Vice Chancellor for Business Affairs as soon as it is known that a loss has occurred for approval of all insurance and fidelity bond claims.

**1.10** The Office of Internal Audit, University Police, institution legal advisors, and the Office of General Counsel must coordinate assistance provided to state, federal, and local law enforcement agencies. All requests for information or assistance from such agencies that are received by other areas shall be immediately forwarded to the University Police for determination and handling. All reasonable assistance must be given to law enforcement agencies when requested.

**1.11** All requests for information and assistance related to investigations conducted by auditors of federal and state agencies that are concerned with potential dishonest or fraudulent activities within the System, shall also be forwarded immediately to the Director of Internal Audit who shall consult with the Office of General Counsel, or with institution legal advisors who shall notify the Office of General Counsel.

**1.12** In order to avoid the use of investigatory techniques that might prevent evidence from being used in a criminal prosecution, University Police must coordinate the criminal investigation once probable criminal activity has been detected.

The Office of Internal Audit shall assist the University Police in investigations of suspected defalcation, misappropriation, and other fiscal irregularities that require accounting and auditing knowledge of System records.

**1.13** The Office of Internal Audit must keep its workpapers secure and limit access to only those individuals designated by the Director of Internal Audit.

**1.14** The Office of Internal Audit must be available and receptive to receiving relevant information on a confidential basis, subject to the provisions of the Texas Public Information Act. Employees and students may directly contact the Director of Internal Audit, the Compliance Officer, the University Police, or executive management whenever an activity is suspected to be dishonest or fraudulent. The reporting individual should not attempt to personally conduct investigations or interviews/interrogations in order to determine whether or not a suspected activity is improper.

**1.15** In order to avoid damaging the reputations of innocent persons initially suspected of wrongful conduct, and to protect the System from potential civil liability, the results of audits or investigations may not be disclosed or discussed with anyone other than authorized representatives of law enforcement or regulatory agencies and only those persons associated with the System who have a legitimate need to know such results in order to perform their duties and responsibilities, subject to the provisions of the Texas Public Information Act.

## **2. Audits/Investigations**

**2.1** Audits revealing violations of the Penal Code for which an audit report will be issued should be reduced to final report form only after consultation by University Police with the local prosecutor or the Office of General Counsel to ensure that appropriate documentation of the facts has been achieved in order to permit appropriate personnel action, protect innocent persons, support appropriate civil or criminal actions, document claims made pursuant to applicable fidelity bonds, preserve the integrity of the criminal investigation and prosecution, and avoid unnecessary litigation.

**2.2** Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid incorrect accusations or alerting suspected individuals that an

audit is underway and also to avoid making statements which could provide a basis for a suit for false accusation or other offenses. Accordingly, the reporting individual should not:

**2.3** Contact the suspected individual to determine facts or demand restitution; or

**2.4** Discuss any facts, suspicions, or allegations associated with the case with anyone, unless specifically directed to do so by the Office of Internal Audit, Compliance Office, University Police, institution legal advisors, or the Office of General Counsel.

**2.5** All inquiries from the suspected individual or his or her representative or attorney shall be directed to institution legal advisors or the Office of General Counsel. Proper response to such an inquiry should be, "I'm not at liberty to discuss this matter." Under no circumstances should there be any reference to "what you did," "the crime," "the fraud," "the forgery," "the misappropriation," or similar references.

**2.6** All reproduction of documents, evidence, and reports shall be performed within the secured work area of the Office of Internal Audit or University Police.

**2.7** To the extent permitted by the applicable provisions of the Texas Public Information Act, confidentiality of those reporting dishonest or fraudulent activities will be maintained. However, the confidentiality cannot be maintained if that individual is required to serve as a witness in legal proceedings.

**2.8** When an audit initiated due to an allegation of criminal activity has failed to detect criminal activity or when advised by the Office of General Counsel, the Director of Internal Audit has the discretion to stop the audit. However, with regard to criminal investigations conducted by University Police, only the Office of the District Attorney is authorized to review the progress of the criminal investigation and make the legal determination regarding whether to pursue a criminal prosecution.

### **3. Operational Audit Findings**

**3.1** Each investigation of possible dishonest or fraudulent activities has the potential to provide a unique insight into specific activities conducted by the System and may disclose control weaknesses and other areas that need additional auditing or management's attention.

**3.2** The office of Internal Audit must review each investigation to determine if additional work needs to be done in order to provide the Audit Committee and management with a basis for taking any corrective action necessary.

### **4. Coordination of Investigations**

**4.1** If funds received from the state are lost, misappropriated, misused, or other unlawful conduct has occurred in relation to the operation of the entity, the Chief

Administrative Officer of the entity shall report the reason and basis for the alleged fraud to the state auditor as required by Texas Government Code Chapter 321, Sec. 321.022.

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## **FORMS AND TOOLS/ONLINE PROCESSES**

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None

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## **APPENDIX**

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None

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Keywords: fraud, reporting, audit, audits, securities, personnel

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