16-119 Conflicts Of Interest

We have completed our audit of the Conflicts Of Interest (COI). This audit was performed at the request of the UTHealth Audit Committee and was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

BACKGROUND
The University Of Texas System (UTS) policy 180 was updated and its new requirements went in effect August 1, 2016. A new Handbook of Operating Procedures (HOOP) was developed to align with the updated UTS 180. HOOP 20 defines the requirements for prior approval and disclosure of outside activities and financial interests. According to the updated HOOP 20, individuals who are required to submit a Financial Disclosure Form include executive officers of the university; faculty; administrative professionals; employees who negotiate and/or sign procurement contracts, license agreements or research grants/contracts; and employees who participate in the design, conduct, or reporting of research. Annual Financial Disclosure Forms must be submitted by March 31 of each year and are required within 30 days of hire or changes in activities requiring disclosure. Specific responsibilities of the UTHealth Institutional Conflicts of Interest (ICOI) Committee reviews all non-research related conflicts that includes the financial interests of the university, its institutional officials, and other employees to identify real, perceived, or potential institutional and individual COI.

In instances where the ICOI Committee believes a conflict can be managed to prevent undue influence on the university’s decisions, functions, or actions, or those of an employee(s), it recommends an appropriate management plan, which must be approved by the Senior Vice President for Academic and Research Affairs and the Chief Operating/Chief Financial Officer.

OBJECTIVE
The objective of this audit was to review the UTHealth ICOI and management plan process for compliance with HOOP 20.

SCOPE PERIOD
Our review was focused on the ICOI program. The scope period was Financial Disclosures submitted during Fiscal Year (FY) 2015-2016 and active management plans as of FY 2016.

METHODOLOGY
Audit procedures performed included but are not limited to:
- Evaluate UTHealth policies and procedures regarding ICOI and determine whether HOOP 20 meets the requirements of the new UTS 180 and federal regulations. A suggestion was made regarding the provision on ICOI public disclosures.
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- Verify new hire employees' completion of training within 30 days of hire and existing employees' completion of required training as well as acknowledgement of related policies. Verify the completeness of the initial Human Capital Management (HCM) query used to identify Fair Labor Standards Act (FLSA) exempt employees to determine whether all applicable categories of employees were included.
- Perform Data Analytics to identify the number and percent of completed Financial Disclosure Forms by each category (executives, management, procurement personnel and faculty); number of disclosures 90 days late; and of number and percent of disclosures not completed by each category.
- Verify travel reimbursement restrictions for late submission of Financial Disclosure Forms were enforced after May 1, 2016. A suggestion was made to the ICOI management to implement a process to determine whether employees' supervisors are taking steps to ensure the travel restriction enforcement remains until the Financial Disclosure Form is completed and submitted.
- Compare the prior approval for each sample item with their relative COI Financial Disclosure Form to determine whether activities initially pre-approved were reported on the Financial Disclosure Forms.
- Test each prior approval request in our sample to determine whether the request was submitted prior to initiation of the activity, used the UTHealth's standard approval format and was periodically renewed as required by HOOP 20.
- Review the ICOI Committee members list, meeting schedules, materials, minutes and attendance lists to determine whether the committee is functioning as intended.
- Verify the ICOI Committee members' completion of required training and acknowledgement of related policies.
- Test a sample of management plans to determine whether the plans were approved by the employee's supervisor and additional approving authorities as applicable and obtain evidence of supervisor's oversight of the employee's compliance with the plan.

AUDIT RESULTS
A&AS identified areas of improvement related to:
- Supervisory oversight of employee's compliance with management plan;
- Completeness of the query for Financial Disclosure Forms submission notification;
- Review of prior approval requests and Financial Disclosure Forms; and
- Financial Disclosure system access.

NUMBER OF PRIORITY & HIGH FINDINGS REPORTED TO UT SYSTEM
None

We would like to thank the staff and management within the Office of the Executive Vice President for Academic and Research Affairs, the Office of Institutional Compliance and the Office of Legal Affairs who assisted us during our review.

Daniel G. Sherman, MBA, CPA, CIA
Assistant Vice President
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MAPPING TO FY 2016 RISK ASSESSMENT

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<tr>
<th>Risk (Rating)</th>
<th>R.9 Conflicts of interests are not adequately identified and addressed. (High)</th>
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AUDITING & ADVISORY SERVICES ENGAGEMENT TEAM

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<tr>
<th>Assistant Vice President</th>
<th>Daniel G. Sherman, MBA, CPA, CIA</th>
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<tr>
<td>Audit Manager</td>
<td>Nathaniel Gruesen, Sr. Audit Manager, CIA, CISA, CFE</td>
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<tr>
<td>Auditor Assigned</td>
<td>Diarra Boye, Auditor</td>
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<td>End of Fieldwork Date</td>
<td>08/11/2016</td>
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<td>Issue Date</td>
<td>09/20/2016</td>
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Copies to:
Audit Committee
Kevin Dillon
Dr. George Stancel
**Issue #1**

HOOP 20

"Management plans will be initiated by the ICOI Committee; however, the employee’s supervisor will recommend the most appropriate management strategies and will be responsible for oversight of the employee’s compliance with the plan."

A&AS obtained all active fiscal year 2016 ICOI management plans and selected a random sample for review. We reviewed each management plan in our sample to assess the effectiveness of the ICOI Committee review of financial disclosures and proposed management of conflicts of interest/commitment. We found each management plan reviewed:

- was in place before the outside activity began or at the time the financial interest was disclosed;
- is in the form of a written agreement that includes expected standards of conduct;
- documents the employee’s receipt of the plan and understanding of the requirements of HOOP 20; and
- was approved by the employee’s supervisor and additional approving authorities as applicable.

Our inquiry with supervisors revealed discussion with employees concerning terms of management plans was conducted; However, there is not a formal process in place requiring these actions be documented. Additionally, in reviewing the management plan template and relevant policy, there is not a requirement for the supervisor to retain evidence of their oversight of the employee compliance with the terms of the management plan.

**Recommendation #1**

We recommend COI management:

a. Develop procedures requiring supervisors to retain documentation as evidence of their oversight of employee’s compliance with the terms of their management plans; and

b. Develop and implement a risk-based ICOI management plan oversight process to provide assurance supervisors are taking appropriate steps to ensure employees remains in compliance with the terms of their respective plans.

**Rating**

Medium

**Management Response**

a. The Management Plan template will be modified to require an attestation that the employee and supervisor acknowledge the shared responsibility to meet at least annually, or when significant circumstances change, to review the requirements of the Plan and how they are being achieved.

b. Annual reminders will be sent from the COI office to the employee reminding them that an annual review meeting with their supervisor is due, and that they are required to provide a statement of their compliance with the Management Plan. Supervisors will also provide evidence of oversight (as listed on the plan) by discussing the contents of the Plan with employees and providing to the COI Office
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<th>Responsible Party</th>
<th>Senior Vice President for Academic and Research Affairs.</th>
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<td>Implementation Date</td>
<td>December 1, 2017</td>
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**Issue #2**

**HOOP 20**

"Benefits-eligible covered employees must obtain prior approval before engaging in the following:

- all outside employment or other compensated activities;
- service on outside boards regardless of whether compensation is received, except as noted in Section III.A.2; and
- Any uncompensated activity that would reasonably appear to create a conflict of interest or conflict of commitment.

In rare instances, outside activity may be approved retrospectively 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 obtained the list of Calendar Year 2015 prior approval requests forms submitted and selected a random sample of 25 requests for review. We tested each prior approval request in our sample to determine whether the request was submitted prior to initiation of the activity, used the UTHealth’s standard approval format and was periodically renewed as required by HOOP 20.

9 out of 25 (36%) approvals were not obtained prior to the initiation of the activity.

Additionally, we compared the prior approval for each sample item with their relative COI Financial Disclosure Form and noted 5 activities initially pre-approved were not reported on the Financial Disclosure Forms. This could be due to cancellation of activities initially preapproved or the lack of financial interest to be reported.

**Recommendation #2**

We recommend COI management:

a. Implement a risk based reconciliation of prior approval requests submitted. In the case of discrepancy between the prior approval and the Financial Disclosure Form, COI management should follow-up to determine whether outside activities are properly disclosed.

b. Modify the policy and /or the prior approval request form requiring an explanation when approval is sought retrospectively.

**Rating**

Medium
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| Management Response | a. We will perform a yearly manual reconciliation of a risk based sample of financial disclosures and prior approvals of the online systems for disclosures and outside activity starting April 2017 (after ALL financial disclosures are due). For any discrepancies identified, COI staff will follow up with the relevant departments to determine if an apparent discrepancy was in compliance or was a violation and notate as appropriate. In the case of a violation, the department will be counseled.
b. We will add a box to the prior approval form requiring explicit justification for retrospective approvals.

| Responsible Party | Manager, COI Office and Senior Vice President Academic and Research Affairs

| Implementation Date | June 1, 2017

| Issue #3 | Stated Procedures

HOOP 20 requires all covered employees and research employees to disclose outside activities and financial interests through the annual Financial Disclosure process. A query was developed by the Office of Human Resources (HR) to identify all FLSA exempt employees. On a yearly basis, the COI office provides this query report to the Office of Communication who sends a mass email to those required to submit an annual Financial Disclosure Form. The COI office periodically reconciles the query to the Financial Disclosure system and sends multiple reminders to encourage employees to submit their Financial Disclosure form.

A&AS obtained and reviewed a copy of the initial query used to identify all FLSA exempt employees.

67 employees were not notified to complete their CY 2015 Financial Disclosure Form.

Further review revealed a new job family code, “L_General A&P” (established in 2014) was not included on the FLSA Exempt query report used to identify those required to complete the annual Financial Disclosure Form. Therefore, 67 General A&P employees did not complete their CY 2015 Financial Disclosure Form.

| Recommendation #3 | We recommend COI management develop a process to ensure completeness of the HCM query used to identify employees covered under HOOP 20. |
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<td>No later than November 1\textsuperscript{st} of each year the COI Office will send Human Resources (HR) a list of the job codes in the Human Capital Management System for faculty, A&amp;P, other employees, etc., used the previous year to identify employees required to submit financial disclosures. The COI office will request a reply from HR no later than December 1\textsuperscript{st} regarding any changes in job codes that could affect the query used to identify employees required to submit financial disclosures.</td>
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<td>Responsible Party</td>
<td>Manager, COI Office and Senior Vice President Academic and Research Affairs</td>
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<td>January 31, 2017</td>
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**Issue #4**

ITPOL-004

6.2.6 "Owners or their designees must review access lists regularly to ensure access privileges are appropriate. Timeframe for access list review should be established based on documented risk management decisions."

6.2.7 "A user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the agency change."

The Financial Disclosure system is used to track employee Financial Disclosure Forms and includes COI approvals. The system is used by both the Offices of Institutional Compliance and Senior Vice President for Academic and Research Affairs.

A&AS obtained the policies and procedures around the Financial Disclosure system and assessed the appropriateness of user access based on job responsibilities. We noted the following:

- Policies and procedures for authorizing new user access in the Financial Disclosure system do not exist.
- The approval of new user access is not formally documented.
- All users have system administrator access, which allows them to grant/revoke access to the Financial Disclosure system.
- One retired employee and one manager who has transferred to another department still maintain access.

**Recommendation #4**

We recommend the Financial Disclosure system owner develop and implement policies and procedures around new user access, designate and restrict system administrator access to select individuals, and review/update the user access listing for appropriateness.
We have redesigned the Financial Disclosure System to have three levels of access and are working with the technical team (Organizational Learning Technology Resources) to modify the system accordingly. "Users" will be all employees who are required to file a financial disclosure and will only have authority to submit and view their own disclosures. "Viewers" will be able to view financial disclosures of all employees, but will not be able to modify records. Viewer status will only be authorized by "administrators". "Administrators" will have ability to view all disclosures in the system and will be the only ones who can correct or modify records as needed and who can designate other administrators.

Initially there will be four administrators: the Senior VP for Academic and Research Affairs, the Conflicts of Interest Coordinator in the COI Office, the Conflicts of Interest Manager in the COI Office, and the Executive Director Research Compliance, Education, and Support Services.

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| Responsible     | Senior VP for Academic and Research Affairs |
| Party           | and the Manager of Compliance               |
| Implementation  | November 1, 2016                            |
| Date            |                                              |