

Control Environment



Angelo State University
Office of Audit Services

TABLE OF CONTENTS

TABLE OF CONTENTS.....	1
INTERNAL CONTROL AND RISK.....	2
CHANGE MANAGEMENT.....	3
BALANCING RISKS AND CONTROLS.....	4
RESPONSIBILITY AND ACCOUNTABILITY.....	4
OVERVIEW OF INTERNAL CONTROL ACTIVITIES.....	5
CONTROL CONSCIOUS ENVIRONMENT.....	6
SEGREGATION OF DUTIES.....	8
AUTHORIZATIONS, APPROVALS, AND VERIFICATIONS.....	10
CONTROL OVER ASSETS.....	11
MONITORING.....	12
THE FRAUD TRIANGLE.....	14
APPENDIX A: SEGREGATION OF DUTIES.....	16
APPENDIX B: TEXAS TECH UNIVERSITY SYTEM ETHICS POLICY.....	17
APPENDIX C: TEXAS TECH UNIVERSITY SYSTEM COMMUNITY CONDUCT.....	21
APPENDIX D: TEXAS TECH UNIVERSITY SYSTEM FRAUD POLICY.....	22
APPENDIX E: ANGELO STATE UNIVERSITY RESOURCES.....	25

INTERNAL CONTROL AND RISK

Internal control is a process, carried out by our administration, faculty, and staff, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations,
- Reliability of financial and administrative operations,
- Accomplishment of established goals and objectives, and
- Compliance with applicable laws and regulations.

The above definition of internal control reflects certain fundamental concepts:

- *People at every level of an organization are responsible for achieving internal control.* Some people have mistakenly assumed that internal control is the responsibility of the Office of Audit Services, the Office of the Vice President for Finance and Administration or someone else. Internal control is, to some degree, the responsibility of everyone in our organization. At Angelo State University, administrative officials at the department-level are principally responsible for, and will be held accountable for, internal control in their departments.
- *Effective internal control helps the Angelo State University achieve its operational objectives, its financial and administrative objectives, and its compliance objectives.* Management plans, organizes, and directs Angelo State University toward the achievement of our objectives. Effective internal control is a built-in part of the management process that applies to all areas of an organization--its operations, its financial and administrative operations, and its compliance with applicable laws and regulations.
- *Internal control can provide only reasonable assurance, not absolute assurance, regarding the achievement of Angelo State University's objectives.* Effective internal control helps us achieve our objectives; it does not ensure success or even survival. There are several reasons why internal controls cannot provide absolute assurance that objectives will be achieved.
 - Management cannot predict the future with certainty,
 - Employees' judgment and decision making may be faulty,
 - Management has to consider the relative costs and benefits when establishing controls,
 - Employees can make simple errors or mistakes,
 - Employees can circumvent controls by collusion of two or more people, and
 - Management may have the ability to override decisions.

Risk is the possibility that an organization or an individual will not:

- Achieve goals,
- Operate effectively and efficiently,
- Protect the area from loss,
- Provide reliable reports and other work products, and/or
- Comply with applicable laws, rules, regulations, policies, and procedures.

CHANGE MANAGEMENT

We all are operating in a constantly changing environment that requires continuous review and monitoring. In such an environment, financial and compliance goals are more challenging to achieve and demand more attention. As external and internal events occur, an organization's risks may significantly change. All employees must reevaluate risks and internal controls when circumstances change.

EXTERNAL FACTORS AFFECTING RISK	INTERNAL FACTORS AFFECTING RISK
Budgetary changes	Employee and management turnover
New technology	University policy
Political changes	Limited resources
Increased regulatory requirements	Decentralization

MANAGING RISK

As the above risk factors occur, they may dramatically affect the organization's risk. Therefore, we should review risk factors on a periodic basis. It should be part of our ongoing monitoring process called risk assessment. Risk assessment is the identification and analysis of risks associated with achieving your objectives. Risk assessment helps to form a basis for determining how to manage identified risks.

Since a risk is anything that could jeopardize the achievement of a goal or objective, for each goal or objective, you should identify your risks. For each identified risk, estimate the potential significance (cost, safety, institutional image) and likelihood of occurrence. Focus on the major risks, and determine how those risks should be managed and minimized to acceptable levels.

BALANCING RISKS AND CONTROLS

To achieve goals, Angelo State University employees and managers need to effectively balance risks and controls. By performing this balancing act, “reasonable assurance” can be attained. When we are out of balance, the following problems can occur.

EXCESSIVE RISKS

- Loss of Assets, Donors or Grants
- Poor Business Decisions
- Noncompliance
- Increased Regulations
- Public Scandals

EXCESSIVE CONTROLS

- Increased Bureaucracy
- Reduced Productivity
- Increased Complexity
- Increased Cycle Time
- Increase of Non-value Activities

RESPONSIBILITY AND ACCOUNTABILITY

RESPONSIBILITY

Responsibility refers to the activities, goals, functions, actions, etc. that a person has to account for or answer to. Part of the area of responsibility is to provide reasonable assurance that organizational goals will be accomplished.

ACCOUNTABILITY

If a person is responsible for an action, he or she is also accountable for that action. Responsibility and accountability are linked. In terms of the delegation of duties, management can delegate some of the duties they are responsible for, but cannot delegate accountability.

A culture that emphasizes accountability strengthens the control environment.

OVERVIEW OF INTERNAL CONTROL ACTIVITIES

IMPORTANCE OF INTERNAL CONTROLS

Think of internal control as a map that helps us get to our destination. Obviously, just because we have a map, there is no ‘guarantee’ that we will get there, but it does provide “reasonable assurance”. Internal controls help keep an organization on course to:

- achieve goals,
- carry out management directives,
- reduce surprises,
- increase reliability of information,
- promote effectiveness and efficiency,
- safeguard assets, and
- comply with rules and regulations.

RESPONSIBILITY AND ACCOUNTABILITY

Deans, department heads, chairpersons and directors are primarily responsible for identifying the financial and compliance risks and internal controls for their operations. In addition, individual employees have responsibility for evaluating, establishing and/or improving, and monitoring internal controls for their areas of responsibility and accountability.

THE ISSUE OF TRUST

Trust is a key component in our interactions in the academic environment. Employing honest, trustworthy personnel is critical; however, trusting employees is not a replacement for a manager’s internal control system. An internal control system does not rely solely on trust but is an “objective” set of procedures to help ensure that goals are met, whether at a department level or at an individual’s workstation. Any override of controls provides an “opportunity” for someone to take advantage of the system.

BASIC TYPES OF CONTROLS

Controls can be either preventive or detective. Preventive controls attempt to deter or prevent undesirable acts from occurring. They are proactive controls that help to prevent a loss. Examples of preventive controls are separation of duties, proper authorization, adequate documentation for transactions, and physical control over assets.

Detective controls, on the other hand, attempt to detect undesirable acts. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, variance analyses, reconciliations, physical inventories, and audits. Both types of controls are essential to an effective internal control system.

KEY CONTROL ACTIVITIES

- Control Conscious Environment
- Segregation of Duties
- Authorizations, Approvals, and Verifications
- Control over Assets
- Monitoring

CONTROL CONSCIOUS ENVIRONMENT

WHAT IS IT?

A control conscious environment is an environment that supports ethical values and business practices. A control conscious environment conveys an attitude of honesty and accountability at all levels. It is a preventive control. This preventive control is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include:

- Integrity and ethical values;
- The competence of an institution's people;
- Leadership philosophy and operating style;
- The way management assigns authority and responsibility, and organizes and develops its people.

WHO IS RESPONSIBLE?

Management is responsible for "setting the tone" for their organization. Management should foster a control environment that encourages:

- The highest levels of integrity and personal and professional standards,
- A leadership philosophy and operating style which promote internal control throughout the organization, and
- An assignment of authority and responsibility, which ensures the highest possible level of accountability.

Each individual employee is responsible for adhering to the Ethics Policy in the Rules and Regulations of the Board of Regents of the Texas Tech University System. We are all expected to conduct ourselves in an ethical and professional manner as we do our work at Angelo State University.

WHAT CONTRIBUTES TO A POSITIVE CONTROL ENVIRONMENT?

Integrity and Ethical Values

An institution's objectives and how they are achieved are based on preferences, value judgments and management styles. Those preferences and value judgments, which are translated into standards of behavior, reflect leaders' integrity and their commitment to ethical values.

Organizational values cannot rise above the integrity and ethics of the people who create, administer and monitor them. Certain organizational factors can influence the likelihood for fraudulent acts or questionable financial reporting practices. Individuals may engage in dishonest, illegal or unethical acts simply because their institutions create strong incentives or temptations to do so. "Temptations" can be created by the following conditions:

- Nonexistent or ineffective controls, such as poor segregation of duties in sensitive areas that

- offer temptations to steal or to conceal poor performance.
- High decentralization and a weak reporting system that leaves administrators unaware of actions taken at lower organizational levels and thereby reduces the chances of getting caught.
- Penalties for improper behavior that are insignificant or unpublished and thus lose their value as deterrents.

Removing or reducing these incentives and temptations can go a long way toward diminishing undesirable behavior.

Ethical values need to be clearly communicated. The most effective way of transmitting a message of ethical behavior is by example. People imitate their leadership. However, setting a good example is not enough. Codes of conduct need to be clearly defined in written policy and should include issues such as conflicts of interest, and illegal or otherwise improper activities. Management's real concern can often be evaluated in terms of how violators are dealt with. Messages sent by a leader's actions in these situations quickly become embodied in the organization's culture.

Commitment to Competence

Hiring competent people and a commitment to maintain competency are essential elements in a control environment. Administrators need to specify the competence levels for particular jobs and translate those levels into requisite knowledge and skills.

Philosophy and Operating Style

Leadership's philosophy and operating style affect the way the organization is managed. This includes factors such as risk taking, attitudes toward financial reporting, reliance on policies and procedures, and delegation of authority.

Assignment of authority and responsibility involves the degree to which individuals and departments are encouraged to use initiative in addressing issues and solving problems, as well as the limits of their authority. Delegation of authority, or "empowerment" means placing control for certain decisions at lower echelons – to the individuals who are closest to everyday activity. The control environment is greatly influenced by the degree to which individuals recognize that they will be held accountable. A critical challenge is to delegate to the extent required to achieve objectives.

Organizational Structure and Personnel Development

An organization's structure provides the framework within which its activities for achieving entity-wide objectives are planned, executed, controlled and monitored. Organizational structure is often a result of administrative philosophy and may be centralized or decentralized or may be structured on a functional basis. The appropriateness of an organization's structure depends, in part, on its size and the nature of its activities.

Human resource practices send messages to employees regarding expected levels of integrity, ethical behavior and competence. Such practices relate to hiring, orientation, training, evaluation, counseling, promoting activities, as well as compensating and remedial actions. Make sure that your employees understand their job responsibilities, the limits to their authority, expected performance standards, and reporting relationships.

SEGREGATION OF DUTIES

WHAT IS IT?

Segregation of duties is a preventive control that aids in the timely detection of errors and irregularities in the normal course of business. Functions are divided so that no one person has control over all parts of a transaction.

WHAT ACTIVITIES SHOULD BE SEGREGATED?

- Authorizing Transactions
- Reconciling Transactions
- Recording Transactions
- Custody (Physical Control) of Assets

The same person should not:

- Maintain custody of cash AND record the deposits.
- Record the deposits AND perform the reconciliations.

Two key questions are:

- Does one person perform all parts of the transaction from initiating to reconciling the account?
- Does someone have access to “information systems” that create a separation of duties problem?

Example: Revenue Generating Operation

Person 1:

1. Receives cash from customers and records to cash register or receipt book.
2. Secures cash until deposit is prepared.

Person 2:

1. Should never function as cashier.
2. Matches cash to be deposited to cash register tape or receipt book.
3. Prepares deposit report.

Person 3:

1. Should never prepare deposit report.
2. Matches departmental copy of deposit report to monthly Banner ledger sheets or bank statement.
3. Reconciles deposit report to register tape or receipt book.

WHAT ELSE?

A simple way of looking at segregation of duties is to have at least “two sets of eyes” look at a transaction. Remember, trust should not prevent a manager from segregating duties. Often it is the long-time, trusted employee who commits fraud because he/she knows the system and how to circumvent it. In small departments, it is often difficult to separate duties. To compensate for this problem, some of the following actions could be employed:

- Place greater emphasis on monitoring.
- Develop internal written policies (desk procedures).
- Require employees to take vacation.

- Use the Dean's office as a level of separation if feasible.
- Use the information system to analyze activities.
- Make sure cash transactions are recorded ASAP.
- Make sure that checks are restrictively endorsed upon receipt.
- Make sure any cash receipts are deposited in accordance with OPs.

AUTHORIZATIONS, APPROVALS, AND VERIFICATIONS

WHAT IS IT?

Transactions are executed and access to assets is permitted only in accordance with management's directives. Approval of a transaction means that the approver has reviewed the supporting documentation and is satisfied that the transaction is appropriate, accurate and complies with applicable laws, regulations, policies, and procedures. This is a preventive control.

WHAT ARE THE ISSUES?

- Signature authority or delegation of that authority should be limited to a "need to have" basis. It's like giving someone signed blank checks. Consequently, managers should judiciously limit authorization authority.
- "Rubber stamping" documents circumvents the authorization control. Managers should question what they sign, at least on a sample basis. Where appropriate, supporting documentation should be attached to the signature form or at least made available. Questioning various transactions and requesting additional information enhances a control conscious environment.
- Electronic signatures and other signatory devices, such as stamps, should be physically secured.
- Managers should never sign a blank form.
- Written procedures outlining the delegation guidelines should be developed.

WHAT ABOUT INFORMATION AUTHORIZATION?

- Access to, and use of, computing resources is restricted to appropriately authorized users.
- All means of access to automated information resources, such as passwords, are confidential and proprietary to the university. Passwords authenticate a user's identity and establish accountability. An employee is required to maintain the privacy of his or her password(s) and is accountable for the unauthorized use. Sharing user identification codes or revealing passwords is prohibited.

CONTROL OVER ASSETS

WHAT IS IT?

Control over assets and records to ensure they don't "disappear" includes both preventive and detective controls. Establishing control procedures to prevent loss of physical and intellectual assets/records and assuring that assets/records are physically secured are preventive controls. Taking a physical inventory, on the other hand, is a detective control.

WHAT IS AN ASSET?

Webster's Dictionary definition: a useful and desirable thing or quality; a single item of ownership having exchange value; the total resources of a person or business

Examples include: equipment, inventories, cash, chemicals, pharmaceuticals, supplies, time, trademarks, and intellectual property

WHAT ARE THE ISSUES?

- Managers are personally responsible for the assets in their organization. Assets have a way of "walking off" if physical controls don't exist.
- Access to records, particularly sensitive or crucial documents, should be limited. This limitation should apply to both electronic and hard copy records.
- Equipment moved between labs or classrooms needs to be monitored.
- Separation of duties should be maintained between the person who has custody of the assets/records and the person who takes the physical inventory.

WHAT ARE SOME ASSET CONTROL ACTIVITIES?

- Periodic asset counts
- Use of perpetual (continually updated) records
- Investigation of discrepancies
- In sales operations, comparing revenues to inventory changes
- Periodic summaries of inventory usage
- Physical safeguards against unauthorized usage, theft, and fire
- Proper receiving procedures related to new assets

MONITORING

WHAT IS IT?

Monitoring refers to the process of reviewing transactions, at least on a test basis, and maintaining general familiarity with the various functions for which you are responsible and accountable. Monitoring should be performed to ensure that controls are in place and that they are functioning as intended. Monitoring is a detective control that aids in identifying losses, errors or irregularities.

WHY IS MONITORING IMPORTANT?

Monitoring ensures that the internal control system is operating as expected. Just because a control exists does not mean that it is properly functioning. Effective controls may be designed into the system, but are not effective unless they are functioning properly.

Managers, for their areas, and individual employees, for their workstations, should perform ongoing monitoring activities to determine whether the control system can be relied on to provide reasonable assurance that financial and compliance goals can be accomplished and to address new risks.

WHAT IF I DON'T HAVE TIME?

All of us are, of course, extremely busy. However, management's role in the internal control system is critical to its effectiveness. Managers, like auditors, don't have to look at every single piece of information to determine that the controls are functioning. Rather, they should focus their monitoring activities in high-risk areas. The use of spot checks of transactions or basic sampling techniques can provide a reasonable level of confidence that the controls are functioning. Individual employees should routinely review and evaluate internal controls affecting their areas of responsibility and accountability.

WHAT IS RECONCILIATION?

Reconciliation is the comparison of different sets of data to one another, identifying and investigating differences, and taking corrective action, when necessary. Examples of reconciliations that should be performed monthly include:

- Comparing monthly procurement card statements to original store receipts.
- Comparing monthly Banner ledger sheets to documentation of approved transactions, which would include purchase orders, RIs, travel vouchers, and phone bills.

WHAT REPORTS CAN BE USED?

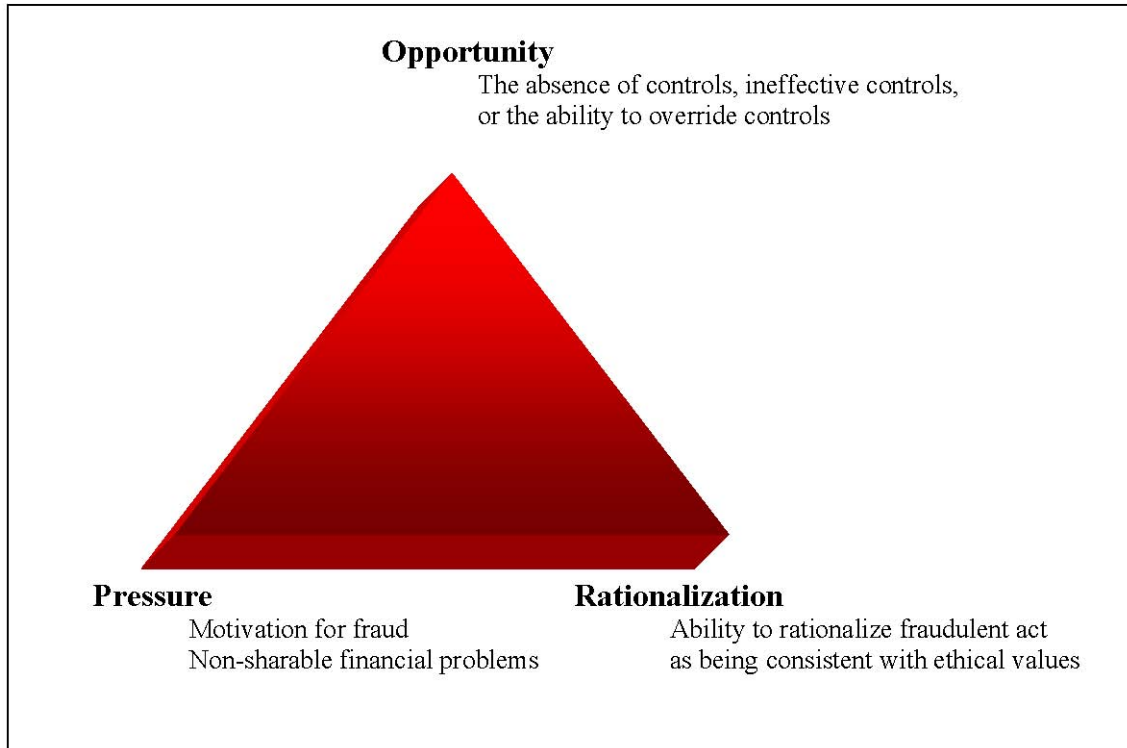
Financial reports are a key monitoring tool. Below are some reports that managers could obtain to use in monitoring controls:

- Comparison of actual to budget
- Comparison of the current month to the previous month
- Comparison of the current month to the previous year's month
- Year-to-date totals
- Special account analysis for high risk accounts
- Reconciliation of department/college balances to a monthly account statement

WHAT ELSE?

- Review procurement card reconciliations transactions for reasonableness.
- Review cellular and departmental phone bills, at least on an overall basis, for reasonableness.
- Review and evaluate financial reports for propriety and trends.
- Review reconciliations, ensuring that reconciling items are investigated.
- Verify the propriety of supporting documentation.
- Make surprise cash counts.
- Follow up on complaints, rumors, and allegations.

THE FRAUD TRIANGLE



The fraud triangle is based on research conducted by Donald R. Cressey. *People's Money*, published in 1953, is an investigation of the social psychology of the violation of financial trust. He established three conditions, all of which must be present if embezzlement is to take place. The embezzler must have: (1) financial problems defined as non-sharable as well as the opportunity to violate trust, (2) knowledge of the workings of the specific enterprise, and (3) rationalization of the act.

Although fraud is an infrequent occurrence at Angelo State University, we should each be aware of its possible existence. Here are some of the factors that can result in the occurrence of fraud:

PRESSURE	OPPORTUNITY	RATIONALIZATION
<ul style="list-style-type: none"> • Financial crisis • Gambling/drinking/ drugs • Living beyond means • Affairs • Mid-life crisis • Revenge • Unappreciated • Workaholic • Family Problems 	<ul style="list-style-type: none"> • Poor or weak internal control system • Lack of management involvement • Lack of monitoring the controls • High management turnover 	<ul style="list-style-type: none"> • “I can’t afford to lose everything.” • “They don’t pay me enough.” • “My child is sick.” • “My boss circumvents the rules.” • “I’ll pay it back.” • True crisis, divorce, etc.

WHAT ELSE?

Below are some indications that fraud might be or is actually occurring:

- Employee won't take a vacation, or often works overtime without being asked.
- Unexplained variances.
- Complaints.
- No reconciliation to University accounting records.
- Even amounts on checks or documents.
- Missing reports or documents.
- Failure to investigate reconciling items.
- One employee "does it all".
- Duplicate payments or documentation is not original.
- Using "exemptions" to use particular vendors over and over.
- "Rush" requests.

APPENDIX A: SEGREGATION OF DUTIES

Transaction Type	Initiates	Authorizes	Records	Reconciles	Control (Custody)
Purchase of Goods or Services (PO)	Issues Requisition Department Personnel	Approves P.O./ Invoice Account Manager or Designee	Enters into Banner Purchasing	Purchases to Banner Ledgers Account Manager or Designee	Receives Goods Department Personnel
Cash Receipts (CR)	Opens Mail, Lists Check, Restrictively Endorses Department Personnel	Makes Deposit Department Cashier (cannot initiate)	Enter into Banner & Department records Bursar & Department Designee	Cash Receipts to Banner Report & Deposits to Checklist Account Manager or Designee	N/A
Payroll	Employee's Time Report Employee	Approves Time Report and Payroll Data Changes Supervisor or Account Manager	Enters into Banner Payroll	Time report to Payroll Certification to Banner Ledgers Account Manager	Distribute Payroll Check Direct Deposit or Payroll
Procurement Card	Purchases Goods Procurement Cardholder	Approves Purchase of Goods Procurement Cardholder	Enters into Banner Accounting Services	Procurement Card Statement to Banner Ledgers Account Manager Or Designee	Receives Goods Procurement Cardholder
Inventory	Issues Requisition Inventory Manager or Designee	Approves P.O./ Invoice Account Manager or Designee	Enters into Banner & Department Records Purchasing/ Property Inventory/ Account Manager	Departmental Records to Banner Ledgers & Physical Counts Account Manager or Designee	Receives Distributes Goods Inventory Manager or Designee

APPENDIX B: ETHICS POLICY

The Rules and Regulations of the Board of Regents of the Texas Tech University System

03.01 Ethics policy. It is important that the people of Texas have complete confidence in the integrity of public servants. This need is especially critical in the area of state-supported higher education. The responsibility for educating and training the future leaders of the state and nation carries with it the duty to adhere to the highest ethical standards and principles. The principles and guidelines contained in this policy shall apply to officers and employees of the TTU system regardless of rank or position. Each component institution's operating manuals should be referenced for further information and/or greater specifics not in conflict with the Regents' Rules.

03.01.1 Conduct. Officers and employees should not:

- a. accept or solicit any gift, favor, or service that might reasonably tend to influence officers or employees in the discharge of official duties or that officers or employees know, or should know, is being offered with the intent to influence the officers' or employees' official conduct;
- b. accept other employment or engage in a business or professional activity that officers or employees might reasonably expect would require or induce them to disclose confidential information acquired by reason of the official position;
- c. accept other appointments or any employment or compensation that could reasonably be expected to impair officers' or employees' independence of judgment in the performance of official duties;
- d. make personal investments that could reasonably be expected to create a substantial conflict between the officers' or employees' private interest and the public interest; or
- e. intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised their official powers or performed official duties in favor of another.

03.01.2 Ethical behavior. TTU system officers and employees shall:

- a. put forth honest effort in the performance of their duties;
- b. not make unauthorized commitments or promises of any kind purporting to bind the TTU system or any of its components;
- c. not use their public offices for private gain;
- d. act impartially and not give preferential treatment to any private or public organization or individual;
- e. protect and conserve public property and shall not use it for anything other than authorized activities;
- f. promptly disclose waste, fraud, abuse, and corruption to appropriate authorities;
- g. adhere to all laws, regulations, and policies that provide equal opportunity for all persons regardless of race, color, religion, sex, national origin, age, or disability; and
- h. endeavor to avoid any actions that would create the appearance that they are violating the law or the ethical standards of the TTU system.

03.01.3 Conflict of interest. It is state policy that state officers and employees may not have direct or indirect interests, including financial and other interests, engage in business transactions or professional activities, or incur any obligation of any nature that is in substantial conflict with the proper discharge of the officers' or employees' duties in the public interest.

03.01.4 Benefits, gifts, and honoraria. A “benefit” is anything reasonably regarded as pecuniary gain or pecuniary advantage, including benefit to any other person in whose welfare a TTU system employee has an interest as under state laws.

- a. Bribery. No TTU system officers or employees may solicit, offer, or accept any benefit in exchange for their decisions, opinions, recommendations, votes, or other exercises of official power or discretion. A benefit that is otherwise allowed by TTU system policy is nevertheless prohibited if it is offered in exchange for official action.
- b. Prohibited benefits. Public servants who exercise discretion in connection with contracts, purchases, payments, claims, and other pecuniary transactions of government, commit an offense if they solicit, accept, or agree to accept any benefit from any person against any person the public servants know is interested in or is likely to become interested in any contract, purchase, payment, claim, or transaction involving TTU system officers’ or employees’ discretion. The prohibition does not apply to the following:
 - (1) gifts or other benefits conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the recipient;
 - (2) a fee prescribed by law to be received by public servants or any other benefit to which they are lawfully entitled or for which they give legitimate consideration in a capacity other than as public servants;
 - (3) a gift, award, or memento that is received from a lobbyist who is required to make reports under Chapter 305, Texas Government Code; and
 - (4) items having a value of less than \$50, not including cash or negotiable instruments.

TTU system officers or employees who receive an unsolicited benefit that they are prohibited from accepting by law may donate the benefit to a governmental entity that has the authority to accept the gift or may donate the benefit to a recognized tax exempt charitable organization formed for educational, religious, or scientific purposes.

- c. Food, lodging, transportation, and entertainment received as a guest. Public servants may accept food, lodging, transportation, or entertainment from persons or entities they know or reasonably should know, are interested in or likely to become interested in a contract, purchase, payment, claim, decision, or transaction involving the exercise of the public servants’ discretion only if the public servants are “guests” as defined by the state laws. Public servants are “guests” if the person or a representative of the entity providing the food, lodging, transportation, or entertainment is present at the time the food, lodging, transportation, or entertainment is received or enjoyed by the public servants. Public servants are required to report any such benefits valued at over \$250 on their annual disclosure statements filed with the Texas Ethics Commission.
- d. Benefits from friends, relatives, and associates. Public servants may accept benefits from personal friends, relatives, or business associates with whom they have a relationship independent of their official status, so long as the benefit is not offered in exchange for official action or decision.
- e. Awards. Public servants may accept plaques and similar recognition.
- f. Honoraria. Public servants may not solicit, accept, or agree to accept an honorarium in consideration for services they would not have been asked to provide, but for their official position or duties. This prohibition includes a request for or acceptance of a payment made to a third party if made in exchange for such services. However, they may accept the direct provision of or reimbursement for expenses for transportation and lodging incurred in connection with a speaking engagement at a conference or similar event. Meals provided as a part of the event or reimbursement for actual expenses for meals may also be accepted. Participation by a public servant must be more than merely perfunctory.

03.01.5 Political activities

- a. Use of TTU system funds or property. No public servant shall expend or authorize the expenditure of any TTU system funds for the purpose of influencing the outcome of any election, or the passage or defeat of any legislative measure.
- b. Political contributions. Unless prohibited by state law, public servants may make personal contributions to political organizations and candidates for political office.

03.01.6 Authority

- a. Misapplication of property. It is a violation of state law for public servants, acting with the intent to obtain a benefit or with intent to harm another, to intentionally or knowingly misapply any thing of value belonging to the government that comes into their custody or possession by virtue of their office as stated in state law.
- b. Misuse of official information. It is a violation of state law for public servants if, in reliance on information that they have access to in an official capacity and that has not been made public, they:
 - (1) acquire or aid another to acquire a pecuniary interest in any property, transaction, or enterprise that may be affected by the information; or
 - (2) speculate or aid another to speculate on the basis of the information as stated in state laws.

03.01.7 Sexual harassment

- a. Public servants should maintain a workplace environment that is free of sexual harassment and intimidation.
- b. It is a violation of Title VII of the Civil Rights Act of 1964 to engage in sexual harassment. Unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature constitute sexual harassment when:
 - (1) submission to such conduct is made either explicitly or implicitly a term or condition of employment;
 - (2) submission to or rejection of such conduct is used as the basis for employment decisions; or
 - (3) such conduct has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile, or offensive working environment.

03.01.8 Nepotism

- a. Whenever an appointment is made, either on a full or part-time basis, it shall be made on the basis of the qualifications and suitability of the appointee, subject to applicable statutes and subject to the provisions of this policy.
- b. No person related within the second degree of affinity or the third degree of consanguinity to any member of the board or to the president or chancellor shall be eligible for appointment to any position in the TTU system when the compensation therefore is paid from any public funds.
 - (1) The above does not apply to any employee who has been continuously employed for thirty or more days prior to appointment of a member to the board or to the president or chancellor who is related to the employee within a prohibited degree, and it does not apply to non-remunerative positions.
 - (2) Any employee who has been continuously employed for less than thirty days prior to

the appointment of a member to the board or to the president or chancellor who is related within a prohibited degree will be terminated.

(3) Persons related within the prohibited degrees are shown on the following page.

c. No person shall be eligible for initial appointment to a position in an area of responsibility over which an administrator has appointive authority in whole or in part when the person is related to the administrator within a prohibited degree. Exceptions to this restriction to the initial appointment of a person may be made only by the board upon recommendations of the president and the chancellor and then only when the administrator in question does not directly supervise the person to be appointed.

d. If the appointment, reclassification, reassignment or promotion of an employee places the employee under an administrative supervisor who is related within a prohibited degree, all subsequent personnel and compensation actions affecting the employee shall become the responsibility of the next higher administrative supervisor.

(1) The provisions of this subsection shall apply to situations where two employees marry and one spouse is the administrative supervisor of the other.

(2) All instances where an employee marries an administrative supervisor or is placed under the administrative supervision of a relative within the prohibited degree will be reported to the board as an information item.

03.01.9 Affirmative action and equal employment opportunity. TTU system officers and employees will not discriminate against any employee or applicant for employment because of race, color, religion, sex, national origin, age, physical or mental disability, Vietnam era or special disabled veteran status. TTU system personnel will take affirmative action to provide a nondiscriminatory application process. Such action shall include, but not be limited to the following employment transactions: upgrading, demotion, or transfer; recruitment or recruitment advertising; lay-off or termination; rate of pay or other forms of compensation; and selection for training, including apprenticeship.

APPENDIX C: SYSTEM COMMUNITY CONDUCT

The Rules and Regulations of the Board of Regents of the Texas Tech University System

03.02 TTU system community conduct

03.02.1 Breach of trust. Colleges and universities that are tax supported must function in accordance with the public trust and the actions by faculty, staff and students within them must be consistent with the execution of that trust. A breach of trust includes, but will not be limited to, the following offenses:

- a. academic dishonesty such as giving or receiving aid on a test, examination, quiz, or other academic assignment;
- b. plagiarism;
- c. forgery, alteration or unauthorized use of TTU system documents, records, or identification materials;
- d. knowingly furnishing false information to the TTU system;
- e. the use of force or violence or other methods of obstructing the functions of the TTU system, which include teaching, research, administration, public service, presentations by guest lecturers and speakers, and other authorized activities;
- f. physical abuse of any person on TTU system-owned or controlled property or at TTU system-sponsored or supervised functions or conduct which threatens or endangers the health or safety of any such person;
- g. theft of or damage to the tangible property of the TTU system or of a member of the TTU system community or campus visitor;
- h. unauthorized entry to or use of TTU system facilities;
- i. unlawful manufacture, distribution, dispensing, possession or use of a controlled substance, or any substance the possession or distribution of which is regulated by federal or Texas law, except where the manufacture, distribution, dispensing, possession or use are in accordance with the laws of each;
- j. lewd, indecent, or obscene conduct on TTU system-owned or controlled property or at a TTU system-sponsored or supervised function;
- k. failure to comply with the lawful directions of TTU system officials where such directions are issued in the performance of their duties; and/or
- l. violation of other laws or promulgated TTU system policies or rules.

03.02.2 Conviction notification. Each faculty, staff and/or student employee is required to notify the TTU system of any criminal drug conviction no later than five days after such conviction.

03.02.3 Adjudication. Adjudication of a violation of the standards established in this policy will result in the assessment of a penalty ranging from an oral reprimand to separation from the TTU system.

APPENDIX D: FRAUD POLICY

The Rules and Regulations of the Board of Regents of the Texas Tech University System

07.03 Fraud policy. The TTU system is committed to the highest standards of moral and ethical behavior. These standards and the subject of appropriate behavior are outlined in the operating manuals of component institutions and in various TTU system and board policies, which should be observed by all TTU system students and employees.

The purpose of this policy is to specifically address fraudulent acts. Fraudulent activity of any kind, including for the benefit of the TTU system, is expressly forbidden. This policy establishes the procedures and responsibilities for reporting and resolving instances of known or suspected fraudulent acts. Black's Law Dictionary defines fraud as follows:

An intentional perversion of truth for the purpose of inducing another in reliance upon it to part with some valuable thing belonging to him or to surrender a legal right. A false representation of a matter of fact, whether by words or by conduct, by false or misleading allegations, or by concealment of that which should have been disclosed, which deceives and is intended to deceive another so that he shall act upon it to his legal injury. Any kind of artifice employed by one person to deceive another.

07.03.1 Broadened definition. For purposes of this policy, the definition has been broadened to include:

- a. an intentional or deliberate act;
- b. depriving the TTU system or a person of something of value or gaining an unfair benefit; and
- c. using deception, false suggestions, suppression of truth, or other unfair means which are believed and relied upon.

07.03.2 Further definition. A fraudulent act may be an illegal, unethical, improper, or dishonest act including, but not limited to:

- a. embezzlement;
- b. misappropriation, misapplication, destruction, removal, or concealment of property;
- c. alteration or falsification of documents;
- d. false claims by students, employees, vendors, or others associated with the TTU system;
- e. theft of any asset including, but not limited to, money, tangible property, trade secrets or intellectual property;
- f. inappropriate use of computer systems, including hacking and software piracy;
- g. bribery, rebate, or kickback;
- h. conflict of interest; or misrepresentation of facts.

07.03.3 Fraudulent act determination. While a fraudulent act may have criminal and/or civil law consequences, the TTU system is not required to use a determination by a criminal justice authority to

criminally prosecute as the basis for determining whether an act is fraudulent. It is the internal determination that the above criteria are present that defines an act as fraudulent under this policy.

07.03.4 Duties and responsibilities. Generally, employees, students, and other persons associated with the TTU system (collectively, members of the campus community) abide by laws, rules, regulations, and policies; however, incidents of fraud may occur. Administrators at all levels of management are accountable for setting the appropriate tone of intolerance for fraudulent acts by displaying the proper attitude toward complying with laws, rules, regulations, and policies, including ethics policies. In addition, administrators should be cognizant of the risks and exposures inherent in their area of responsibility, and should establish and maintain proper internal controls which will provide for the security and accountability of the resources entrusted to them.

Any member of the campus community who has a reasonable basis for believing a fraudulent act has occurred has a responsibility to promptly notify one of the following:

- a. his or her supervisor;
- b. the appropriate administrator;
- c. OIAC; or
- d. TTU system police department.

Employees who, in good faith, report unlawful activity are protected by the Texas Whistleblower Act against any retaliation by the TTU system for making such a report. The reporting member of the campus community shall refrain from confrontation of the suspect, further examination of the incident, or further discussion of the incident with anyone other than the employee's or student's supervisor or others involved in the resulting review or investigation. Persons found to be making frivolous claims under this policy will be disciplined, up to and including termination of employment or expulsion from the TTU system.

07.03.5 Investigation. Supervisors and administrators at all levels of management who become aware of suspected fraudulent activity are to respond in a consistent and appropriate manner and shall report the suspected activity to the OIAC. With the concurrence of the Director of OIAC, the supervisor or administrator may treat the incident as an administrative issue and have a qualified individual or individuals perform an objective review as considered necessary.

The OIAC has the primary obligation for investigating reported incidents to the extent considered necessary for resolution. The OIAC may contact other TTU system departments, including, but not limited to, the Office of General Counsel and the TTU system police department, to establish the necessary team to proceed with the review or investigation. The investigative team will attempt to keep source information as confidential as possible. In those instances where the investigation indicates criminal activity, the investigation shall be turned over to the TTU system police department or other appropriate law enforcement agency.

All affected departments and/or individuals shall cooperate fully with those performing a review or investigation, including the OIAC, law enforcement officials, regulators, and any other parties involved. During all aspects of the review or investigation, the Constitutional rights of all persons will be observed. Suspects and others involved in the review or investigation shall be treated consistently without regard to past performance, position held, length of service, race, color, religion, sex, age, disability, national origin, or veteran status.

07.03.6 Disciplinary actions.

- a. Employees found to have participated in fraudulent acts as defined by the policy will be subject to disciplinary action, up to and including termination, pursuant to personnel policies and rules. Additionally, employees suspected of perpetrating fraudulent acts may be placed on paid administrative leave during the course of the investigation. In those cases where disciplinary action is warranted, the Office of Personnel/Human Resources, Office of General Counsel, or other appropriate office shall be consulted prior to taking such actions. Criminal or civil actions may be taken against employees who participate in unlawful acts.
- b. The employment of any employee involved in the perpetration of a fraud will ordinarily be terminated without eligibility for rehire. Actions to be taken will be determined without regard to past performance, position held, length of service, race, color, religion, sex, age, disability, national origin, or veteran status.
- c. Students found to have participated in fraudulent acts as defined by this policy will be subject to disciplinary action pursuant to operating manuals. In those cases where disciplinary action is warranted, the Dean of Students, Office of Student Services, Office of General Counsel, or other appropriate office shall be consulted prior to taking such actions. Additionally, criminal or civil actions may be taken against students who participate in unlawful acts.

The relationship of other individuals or entities associated with the TTU system found to have participated in fraudulent acts as defined by this policy will be subject to review, with possible consequences including termination of the relationship. In those cases where action is warranted, the Office of General Counsel or other appropriate office shall be consulted prior to taking such actions. Additionally, criminal or civil actions may be taken against individuals or entities associated with the TTU system who participate in unlawful acts.

07.03.7 Fraud reporting. The results of investigations conducted by the OIAC shall be communicated, either orally or in writing, as determined by the Director of OIAC, to the board and chancellor, or other appropriate administrator.

APPENDIX E: ANGELO STATE UNIVERSITY RESOURCES

Office of Audit Services

Angelo State University

Maggie Pepper (325) 942-2261

maggie.pepper@angelo.edu

<http://www.angelo.edu/services/audit/>

Student Accounts/Bursar

Martha Cox (325) 942-2008, ext. 260

martha.cox@angelo.edu

Controller's Office

Denise Brodnax (325) 942-2014, ext. 263

denise.brodnax@angelo.edu

Purchasing

Margaret Mata (325) 942-2012, ext. 294

margaret.mata@angelo.edu

Accounts Payable

Candy Woodul (325) 942-2014, ext. 280

candy.woodul@angelo.edu

Travel Services

Connie Brown (325) 942-2014, ext. 274

connie.brown@angelo.edu

Human Resources

Jesse Gomez (325) 942-2168, ext. 270

jesse.gomez@angelo.edu

Grants and Contracts Accounting

Angie Rios (325) 942-2014, ext. 278

angelene.rios@angel.edu

Property Inventory

Scott Prindes (325) 942-2376, ext. 295

scott.prindes@angelo.edu

Office of Audit Services

Texas Tech University System (806) 742-3220

<http://www.ttuhsc.edu/Admin/Audit/index.htm>