



THE UNIVERSITY OF TEXAS SYSTEM AUDIT OFFICE
Travel and Business Entertainment Expenses Audit
Fiscal Year 2024

SUMMARY

BACKGROUND: At The University of Texas (UT) System Administration, Financial Shared Services (FSS), which is part of the UT System Controller’s Office, is responsible for processing all travel and business entertainment expense reimbursements for employees and those who may perform work on behalf of UT System Administration. Employees are responsible for ensuring that their travel and business entertainment expenses comply with policies and support valid business purposes. Department leaders, and their designees, are responsible for reviewing and approving travel and business entertainment reimbursement requests before they submitted to FSS for review and payment. FSS reviews each reimbursement request to ensure UT System Administration policies are being followed before they approve them for payment. The total amount of reimbursed travel and business entertainment expenses for UT System Administration that we identified for Fiscal Year (FY) 2023 was \$703,412.

While we regularly perform risk-based selection and review of chief administrator travel and business entertainment expenses for UT System Administration and the UT institutions, we have not performed an audit that specifically included travel and business entertainment expenses reimbursed to individuals at UT System Administration, excluding the Chancellor, since FY 2018. Since then, UT System Administration has implemented a third-party system to improve the effectiveness and efficiency of processing expense reimbursements.

OBJECTIVE: To determine if UT System Administration’s travel and entertainment expenses are appropriate, accurate, and in compliance with applicable policies, including *HOP 2.1.1 Travel Policy* and *HOP 2.1.2 Entertainment Expenses and Guidelines on Other Uses of Institutional/Gift Funds*. Our audit was limited to travel and business entertainment expenses reimbursed to employees and individuals who performed duties on behalf of UT System Administration.

CONCLUSION: Travel and business entertainment expenses reimbursed to employees and individuals who performed duties on behalf of UT System Administration were appropriate, accurate, and in compliance with most of the requirements in applicable policies. However, we identified an opportunity to improve identification and processing of late reimbursement submissions to strengthen compliance with accountable plan requirements set forth by the Internal Revenue Service (IRS).

OBSERVATION

1
Low

Without sufficient controls to support the manual travel and business entertainment process, the Controller’s Office may not consistently identify late expense reimbursement submissions that should be processed through Payroll and taxed to demonstrate compliance with federal accountable plan requirements.

Management developed an action plan that incorporated System Audit Office recommendations to address the observation and anticipates implementation of all action plan steps on or before August 31, 2024.



Enhance controls over the processing of late reimbursement submissions

Without sufficient controls to support the manual travel and business entertainment process, the Controller's Office may not consistently identify late expense reimbursement submissions that should be processed through Payroll and taxed to demonstrate compliance with federal accountable plan requirements.

IRS rules permit employers with accountable plans to reimburse employees for business travel or other business-related expenses without including such payments as earnings on an employee's W-2 and withholding taxes from that reimbursement. The IRS has indicated that an employer's reimbursement arrangement must include each of the following requirements in order to be considered an "accountable plan":

1. The expenses must have a business connection.
2. Any excess reimbursement must be returned within a reasonable period of time.
3. The expenses must be adequately accounted for in a reasonable period of time. The IRS has determined that it is

reasonable for expenses to be accounted for within 60 days after expenses were paid or incurred. If a reimbursed expense is considered non-accountable (i.e., not accounted for timely), then it is subject to taxation.

As an employer with an accountable plan, UT System Administration, through *HOP 2.1.1 Travel Policy* and *HOP 2.1.2 Entertainment Expenses and Guidelines on Other Uses of Institutional/Gift Funds*, requires travel reimbursements to be submitted by individuals seeking reimbursement within 60 days of the last date of travel. The submission date occurs when an employee submits their reimbursement request to their department approver through the Concur system. Concur is a cloud-based service that enables UT System Administration to process travel and business expense reimbursements in a more efficient manner than the manual, legacy process. Concur records dates of submissions, approvals, and related workflows and has robust audit trails that permit aging of reimbursement submission requests. In addition, Concur automatically flags potential late reimbursements. FSS has a manual process to review flagged reimbursement requests and mark such requests as taxable. Reimbursement requests that FSS identifies as taxable are processed by Payroll and included in employees' other taxable earnings (OTE).

Using data analytics, we identified 55 travel expense reimbursement requests that were not submitted within 60 days, representing 4.0% of 1,372 travel expense reimbursement requests. We also identified 13 business expense reimbursement requests not submitted within 60 days, representing 3.7% of 356 business expense reimbursement requests. While FSS confirmed and forwarded most of these to Payroll, FSS did not identify and forward eight late submissions (11.8% of all late submissions) to Payroll to be processed as OTE. The cause of the error was two-fold: 1) The audit rule was set up incorrectly in Concur and was only triggering alerts based on the date the expense was entered, not the date that the report was submitted. In addition, the alerts were set up to trigger on reports submitted after 61 days instead of 60 days. The audit rule has since been corrected. 2) The manual review process can be subject to error and sufficient compensating controls, such as a periodic aging report, could be used to review and confirm that late submissions are managed in accordance with IRS requirements. We also noted that certain departments had more late submissions than others. An aging report that includes impacted departments could provide insight as to which departments might need targeted reminders or refresher training to reduce the rate of late submissions. Consideration should also be given to determining how the missed withholding taxes might need to be addressed.

As part of the audit, we also reviewed the HOP (Handbook of Operating Procedures) travel and business entertainment policies. The business entertainment policy was updated in December 2023 and clearly defines the tax consequences of a late submissions. The travel policy, which was last updated in July 2021, does not include any description of the tax consequences for late travel reimbursement submissions. Clear and specific policies can help reduce the risk of non-compliance and avoid misunderstandings of policy requirements.



ACTION PLAN

To enhance controls over the processing of late reimbursement submissions, FSS has taken or will complete the following action plan steps by the end of this fiscal year:

1. Update the applicable Concur audit rule so that expenses submitted more than 60 days after they are incurred are properly identified and flagged for taxation. (Completed April 17, 2024)
2. Add the overlooked taxable expenses from FY23 as OTE to an upcoming paycheck for the applicable employees. (Completed April 24, 2024)
3. Re-establish an FSS team member as a secondary processor for Concur expense reports. (Anticipated Implementation Date: June 1, 2024)
4. Consistently run reports to compare expenses submitted more than 60 days after incurrence and expenses marked as taxable. Correct any omissions on a quarterly basis. (Anticipated Implementation Date: June 1, 2024)
5. Include verbiage regarding taxability of late submissions to travel policy, HOP 2.1.1, Sec. 4.1. (Anticipated Implementation Date: June 10, 2024)
6. Update full travel policy, HOP 2.1.1, which was last revised July 7, 2021. (Anticipated Implementation Date: August 31, 2024)

Anticipated Implementation Date: **August 31, 2024**



The System Audit Office conducted this engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing* and generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our objectives. The System Audit Office is independent per GAGAS requirements for internal auditors.

SCOPE AND PROCEDURES

The scope of this engagement was the period from September 1, 2023, through August 31, 2023, or FY 2023, and was limited to reimbursed travel and business entertainment expenses and, as applicable, the related direct-billed amounts. Audit procedures included gaining an understanding of processes, controls, and policies for the reimbursement of travel and business entertainment expense reimbursements, utilizing data analytics to identify the population of travel and business entertainment expense reimbursements, testing a sample of travel and business entertainment expense reimbursements to determine compliance with applicable policies, identifying reimbursement submission requests and determining whether they were processed in accordance with policy and federal requirements, identifying and testing a sample of holiday and weekend travel to validate business need, and other procedures deemed necessary to accomplish the audit objective.

We will follow up on action plans in this report to determine their implementation status. We validate implementation of action plans for Priority- and High-level observations and review and rely on written affirmation from the responsible department to track completion of action plans for Medium- and Low-level observations. Responsible departments may request an extension to implement their action plans. Extension requests for Priority- and High-level observations require approval by the appropriate executive officer. This process will help enhance accountability and ensure that timely action is taken to address the observations.

OBSERVATION RATINGS

Priority	An issue that, if not addressed timely, has a high probability to directly impact achievement of a strategic or important operational objective of System Administration or the UT System as a whole.
High	An issue considered to have a medium to high probability of adverse effects to a significant office or business process or to System Administration as a whole.
Medium	An issue considered to have a low to medium probability of adverse effects to an office or business process or to System Administration as a whole.
Low	An issue considered to have minimal probability of adverse effects to an office or business process or to System Administration as a whole.

CRITERIA

System Administration policies and procedures, including, but not limited to:

- [HOP 2.1.1 Travel Policy](#)
- [HOP 2.1.2 Entertainment Expenses and Guidelines on Other Uses of Institutional/Gift Funds](#)

REPORT DATE

April 29, 2024

REPORT DISTRIBUTION

To: Veronica Hinojosa Segura, Associate Vice Chancellor and Controller
Cc: Jonathan Pruitt, Executive Vice Chancellor for Business Affairs
Casilda Clarich, Director, Financial Shared Services and Contracts and Procurement
UT System Administration Internal Audit Committee
External Agencies (State Auditor, Legislative Budget Board, Governor’s Office)