March 4, 2015

Dr. David Daniel, President,
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of Executive Travel and Entertainment as part of our Fiscal Year 2014 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing. The objective of this audit was to ensure that executive travel and entertainment expenses made by executives, or on behalf of executives, were in compliance with travel and entertainment policies and procedures. Testing was focused on the director level and above, including Chairs.

Overall, we found that executive travel and entertainment expenses complied with existing travel and entertainment policies and procedures. Opportunities exist to enhance and enforce existing guidelines are outlined in the attached report.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens
Institutional Chief Audit Executive

UT Dallas Responsible Parties:
- Pete Bond, Assistant Vice President of Procurement Management

Members of the UT Dallas Institutional Audit Committee:
- External Members:
  - Mr. Bill Keffler
  - Mr. Ed Montgomery
  - Dr. Hobson Wildenthal, Executive Vice President and Provost
  - Dr. Calvin Jamison, Vice President for Administration
  - Mr. Terry Pankratz, Vice President for Budget and Finance
  - Dr. Andrew Blanchard, Vice President for Information Resources and Chief Information Officer, Dean of Undergraduate Studies
  - Dr. Bruce Gnade, Vice President for Research
  - Dr. Darrelene Rachavong, Vice President for Student Affairs
  - Mr. Timothy Shaw, University Attorney

The University of Texas System:
- Dr. Pedro Reyes, Executive Vice Chancellor for Academic Affairs
- Alan Marks, Attorney
- Mr. J. Michael Peppers, CIA, CRMA, CPA, FACHE, Chief Audit Executive
- Ms. Moshmee Kalamkar, CPA, CIA, Audit Manager

State of Texas Agencies:
- Legislative Budget Board
- Governor’s Office
- State Auditor’s Office
- Sunset Advisory Commission

AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION UNIVERSITY
Executive Summary

Audit Objective and Scope: The objective of this audit was to ensure that executive travel and entertainment expenses made by executives, or on behalf of executives, were in compliance with travel and entertainment policies and procedures. Testing was focused on the director level and above, including Chairs.

The following is a summary of the audit recommendations by priority and risk type. See Appendix A for additional details.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Priority and Risk Type</th>
<th>Estimated Implementation Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) <strong>Consider Setting Entertainment Expense Limits</strong></td>
<td><strong>Reputation</strong></td>
<td>May 1, 2015</td>
</tr>
<tr>
<td>(2) <strong>Improve Compliance with Existing Guidelines</strong></td>
<td><strong>Effectiveness and Efficiency</strong></td>
<td>February 16, 2015</td>
</tr>
</tbody>
</table>

**Responsible Vice President:** Terry Pankratz, Vice President for Budget and Finance

**Responsible Party:** Pete Bond, Assistant Vice President for Procurement Management

**Staff Assigned to Audit:**
Project Leader: Ali Subhani, Information Technology Audit Manager, CISA, CIA, GSNA; Staff: Ray Khan, Staff Auditor
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Background

The Office of Procurement Management, reporting to the Vice President for Budget and Finance, is responsible for processing all travel and entertainment expenses, including those pertaining to executives. During fiscal year 2014, UT Dallas executive entertainment expenses totaled approximately $258,991, and executive travel totaled approximately $1,323,173.

Within the Office of Procurement Management, Travel Management Services has a website\(^1\) with links to applicable policies, procedures, and helpful assistance to travelers and administrative staff that helps ensure compliance with travel policies. The policy governing entertainment and official occasions was revised in September 2014\(^2\). Employees are responsible for ensuring that the travel and entertainment expenses comply with university policies and procedures and support the mission of UT Dallas. Travel and entertainment expenses for all employees must be approved by the employee’s supervisor before submission to Procurement Management for processing.

UT Dallas is in the process of implementing a One Card system. This system is scheduled for implementation during fiscal year 2015 and will use a single card for both purchasing and travel. This implementation will move the university toward a more automated system and will help enhance efficiency in Procurement Management by reducing the volume or reimbursements and travel advances and provide convenience to faculty and staff.

Audit Objective

The objective of this audit was to ensure that executive travel and entertainment expenses made by executives, or on behalf of executives, were in compliance with travel and entertainment policies and procedures. Testing was focused on the director level and above, including Chairs.

Scope and Methodology

The scope of this audit was fiscal year 2014, and our fieldwork concluded on December 17, 2014. To satisfy our objectives, we performed the following:

- Gained an understanding of travel and entertainment policies, procedures, and processes by reviewing applicable policies and procedures and interviewing staff responsible for travel and entertainment processing.

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\(^1\) https://www.utdallas.edu/procurement/departments/travel/

\(^2\) www.utdallas.edu/business/admin_manual/pdf/E11900.pdf
• Tested executive travel and entertainment expenses for compliance with UT Dallas policies and procedures, including proper authorization, appropriate documentation, and reasonableness.

The President’s travel and entertainment expenses were audited separately as part of the UT System Audit Office FY 2014 Audit Plan.

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing. The Standards set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

Audit Results and Management’s Responses

Our audit work indicated that the following controls currently exist:

- Overall, expenses were properly authorized by an appropriate level of management.
- Expenses were generally reasonable to the mission of the departments and the university.

Audit Recommendations

Priority Findings – UT System

A UT System priority finding is defined by the UT System Audit Office as: “an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”

We have no UT System Priority Findings resulting from this audit. See Appendix A for the Priority Findings and Risk Matrix defining the various risk factors and risk levels for each audit recommendation.

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3 Appendix A defines the priority and risk ranking used for all internal audit recommendations.
(1) **Consider Setting Entertainment Expense Limits**
Risk Rating: **Medium**; Risk Factor: Reputation

The entertainment policy was updated and approved in September 2014\(^4\). The policy states that “All expenditures related to entertainment shall be processed by the university in accordance with Federal and State laws and evaluated and approved in accordance with the best value for the university and reasonable cost. These two guiding principles shall be continually reviewed and approved through the organizational approval processes within the university.”

The policy also states that “Specific guidance and processing procedures for the payment of entertainment expenditures can be found in the Office of Budget and Finance frequently asked question database (AskYODA) at [Entertainment Expenditures](http://policy.utdallas.edu/utdbp3094).” Upon review of the database, there are no limits set on entertainment expenses; instead, the guidelines that that “A specific dollar limit is not specified, but good stewardship is required in all cases.”

Most of the other University of Texas (UT) System academic institutions, as well as UT System Administration, have set limits on entertainment expenses. Due to the nature of these types of expenses and potential media exposure, imposing limits may decrease the risk of employees exceeding reasonable amounts.

**Recommendation:** We recommend that management add guidance within the AskYODA system to give general limits consistent with the other UT academic institutions for entertainment expenses.

**Management’s Response:** Management agrees. The following guidance will be added to the AskYODA system. “Generally, entertainment expenditures will not exceed $75 per participant inclusive of all charges including gratuities. This amount is not a standard as all entertainment expenditures are contextual in nature. All requests for reimbursement in excess of $75 must be accompanied by a statement justifying the amount. Likewise, management and procurement services reserve the right to request additional documentation from employees who routinely approach the $75 limit.”

**Estimated Date of Implementation:** May 1, 2015

**Person Responsible for Implementation:** Pete Bond, Assistant VP for Procurement Management

\(^4\) [http://policy.utdallas.edu/utdbp3094](http://policy.utdallas.edu/utdbp3094)
(2) **Improve Compliance with Existing Guidelines**

Risk Rating: Medium ★; Risk Factor: Effectiveness and Efficiency

Opportunities to improve compliance with existing travel and entertainment guidelines were noted. We found that 49 of the 183 (27%) transactions tested did not comply with UTD and/or UT System policies.

Generally, noncompliance with existing guidelines was due to the following:

- Inadequate supporting documentation existed to support expenditures that were incurred. Without adequate documentation, it is difficult to verify the appropriateness of charges. The Entertainment and Official Occasions Policy in place at the time of the audit stated: “An original itemized receipt is required for all meals and the receipt must include the number of attendees. If an itemized receipt is not available, a statement must be included and signed by the one requesting reimbursement.”

- Car rental reservations were made for luxury class vehicles without a documented business purpose. The appropriate business practice is to select the most cost effective option during travel.

- Instances were noted where purchasing cards were used to make donations to charitable organizations.

Lastly, in previous fiscal years certain individuals (generally, all assistant vice presidents and above) were granted an exception that allowed them to claim actual travel expenses instead of following university guidelines that require using federal per diem allowances. Many of the expenses reviewed during this audit had been approved under this exception. Procurement Management eliminated this exception during fiscal year 2015. All employees must follow the federal allowances unless a specific business purpose is documented and approval is granted by the Assistant Vice President for Procurement Management.

**Recommendation:** University guidelines for ensuring adequate documentation should be enforced. Reimbursements should not be processed until adequate supporting documentation has been provided, including itemized receipts and business purposes when exceptions occur to existing guidelines. Donations to charitable organizations should never be reimbursed.

**Management’s Response:** University guidelines will be enforced to include appropriate supporting documentation, itemized receipts when required and statement of reasonable business purpose. Donations to charitable organizations will not be reimbursed.
Estimated Date of Implementation: February 16, 2015

Person Responsible for Implementation: Pete Bond, Assistant VP Procurement Management

Status of Prior Audit Recommendations

The following is the status of implementation of the recommendations resulting from Internal Audit Report No. R1408, Executive Travel and Entertainment, dated February 12, 2014

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Management’s Response and Planned Implementation Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>The entertainment policy should be promptly updated, and a review of the approval process for the Special Events Risk Assessment form should be performed.</td>
<td>The policy will be updated. Estimated implementation May 31, 2014.</td>
<td>Policy updated September 2014</td>
</tr>
<tr>
<td>University policies for ensuring adequate documentation for business expense reimbursements, including Itemized receipts, should be enforced.</td>
<td>The requirement for an itemized receipt related to business expense reimbursement will be emphasized in all training and via website updates by Procurement Management. If documentation is inadequate, reimbursement will be withheld until the itemized receipt or a clarification statement is provided by the employee requesting reimbursement. Estimated implementation March 31, 2014.</td>
<td>The website information was improved, and training was emphasized. However, as shown in recommendation (2) above, this remains in process.</td>
</tr>
</tbody>
</table>

Conclusion

Based on the audit work performed, we conclude that overall, executive travel and entertainment expenses complied with existing travel and entertainment policies and procedures. Opportunities exist to enhance and enforce existing guidelines.

We appreciate the courtesy and cooperation received from the management and staff of Procurement Management during this audit.
## Appendix: Priority Findings and Risk Matrix

### Definition of Risks

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High</strong></td>
<td>High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Management Review Committee (ACMRC). Priority findings reported to the ACMRC are defined as “an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”</td>
</tr>
<tr>
<td><strong>High/Medium</strong></td>
<td>Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.</td>
</tr>
<tr>
<td><strong>Medium</strong></td>
<td>The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.</td>
</tr>
<tr>
<td><strong>Low</strong></td>
<td>Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.</td>
</tr>
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### Risk Factors

- Reputation - damage to the image of UT Dallas and/or UT System
- Information Security - integrity, confidentiality and availability of information
- Compliance – compliance with external legal or regulatory requirements
- Accomplishment of Management’s Objectives – goals being met, projects being successful
- Effectiveness and Efficiency – objectives at risk and/or resources being wasted
- Capital Impact - loss or impairment of the use of assets
- Life Safety – including loss of life, injury, toxics/infectious disease
- Management Oversight – and control of critical organizational objectives
- Operational Alignment – management’s alignment of people, process and technology to efficiently accomplish organization objectives
- Designed Controls – adequacy of controls within critical operations
- Payments/Expenditures – including fines and legal costs
- Lost Revenue – actual and/or opportunities