Executive Travel and Entertainment Expenses

Audit Report #13-20
November 18, 2013

Office of Auditing and Consulting Services

"Committed to Service, Independence and Quality"
November 18, 2013

Dr. Diana Natalicio, President
The University of Texas at El Paso
Administration Building, Room 500
El Paso, Texas 79968

Dear Dr. Natalicio:

The Office of Auditing and Consulting Services at the University of Texas at El Paso has completed the audit of the Executive Travel and Entertainment Expenses for the 2011 – 2012 fiscal year. Results of the audit and recommendations are included in the attached report.

We appreciate the cooperation and assistance provided by the Information Technology and Financial Services departments throughout our audit.

Sincerely,

William A. Peters, CPA, CIA
Director
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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>2</td>
</tr>
<tr>
<td>BACKGROUND</td>
<td>3</td>
</tr>
<tr>
<td>AUDIT OBJECTIVES</td>
<td>3</td>
</tr>
<tr>
<td>SCOPE AND METHODOLOGY</td>
<td>3</td>
</tr>
<tr>
<td>AUDIT RESULTS</td>
<td>4</td>
</tr>
<tr>
<td>A. Pre-Travel Authorizations (VE5):</td>
<td>4</td>
</tr>
<tr>
<td>B. Travel Reimbursements (VP5):</td>
<td>4</td>
</tr>
<tr>
<td>C. Entertainment/Executive Reimbursements (VP2):</td>
<td>4</td>
</tr>
<tr>
<td>RECOMMENDATIONS</td>
<td>5</td>
</tr>
<tr>
<td>CONCLUSION</td>
<td>5</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

The Office of Auditing and Consulting Services has completed the audit of Executive Travel and Entertainment Expenses. The audit scope was limited to travel and entertainment expenses reimbursed to, or paid on behalf of, selected executive officers and key management personnel of The University of Texas at El Paso (UTEP) during the period September 1, 2011 through August 31, 2012. The objective of the audit was to determine whether the travel and entertainment expenses incurred by the selected individuals were in compliance with policies, procedures, laws and regulations of UTEP, The University of Texas System and the State of Texas.

The audit revealed that the majority of transactions tested were not properly approved, and the many documents did not clearly and adequately state the business purpose of the travel and/or entertainment.
BACKGROUND

The University of Texas System (UT System) Board of Regents’ Rule 20205 Expenditures for Travel, Entertainment, and Housing by Chief Administrators was approved on May 11, 2006. The purpose of this Rule is to “prescribe, clarify, and provide uniformity in the approval, review, and audit process for travel, entertainment, and housing expenses incurred by the Chancellor and presidents.” At the request of Chancellor Cigarroa, the audit requirements were expanded to include travel and entertainment expenses incurred by UT System institutions’ executive officers and key management personnel. All individuals at the Director level and above will be eligible to be included in the audit, but may not necessarily be selected. This audit was performed to fulfill that requirement for The University of Texas at El Paso (UTEP).

AUDIT OBJECTIVES

The objectives of this audit were to determine whether:

- travel and entertainment expenses incurred by UTEP executive officers and key management personnel were in compliance with policies, procedures, laws, and regulations of UTEP, UT System, and the State of Texas.
- the expenses had an adequate and appropriate business purpose, and were necessary to conduct business for benefit of The University.
- the transactions were processed in a timely fashion, properly approved, and supported by the appropriate documentation.

SCOPE AND METHODOLOGY

The scope of the audit included a sample of travel and entertainment transactions for selected UTEP executive officers and key management personnel during the period September 1, 2011 through August 31, 2012. From a population of 244 individuals, we selected 36 for testing. The sample was selected using Computer Assisted Audit Tools and Techniques and included separate testing of the following travel/entertainment documents:

A. Pre-Travel Authorizations (VE5)
B. Travel Reimbursements (VP5), and
C. Executive/Entertainment Reimbursements (VP2)

Audit testwork included a review of applicable policies, procedures, laws and regulations. We conducted interviews with key personnel and verified travel and entertainment reimbursements through inspection of supporting documentation. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
AUDIT RESULTS

A. Pre-Travel Authorizations (VE5):
Current UTEP travel regulations state: "Prior approval for all business travel is required for absences from the campus for periods of half a day or more during the normal working period." In addition, a copy of the approval document is required as part of the supporting documentation before reimbursements can be paid. Failure to approve travel prior to departure could result in un-encumbered funds, lack of UTEP-provided traveler insurance and reimbursement of non-business travel expenses by the University. Of the thirty-five transactions tested:

- twenty-seven (77%) did not have supervisory approval, including four authorizing their own travel in the system,
- twenty-two (64%) did not clearly document an adequate business purpose, and
- seven (20%) did not have travel approved prior to the travel date.

B. Travel Reimbursements (VP5):
Travel reimbursement transactions (VP5) must be accompanied by a travel itinerary, original receipts and mileage information, if applicable. Of the 25 travel reimbursement transactions tested all had original receipts and documentation included; however, 20 (80%) did not have supervisory approval including five approved by the individual requesting the reimbursement.

C. Entertainment/Executive Reimbursements (VP2):
UTEP's Handbook of Operating Procedures (HOOPS) states that "departmental expenditures or reimbursement of expenses for entertainment meals or refreshments will be permitted only when such expenditures are of demonstrable benefit to the University."
Reimbursement for these expenses may be processed by submitting a local funds voucher (VP2) along with a completed Entertainment Expense Form and itemized original receipts to the Accounts Payable Office. Prior to submission, the VP2 and form must be approved and signed by the department head or supervisor. The Entertainment Expense Form must include a brief explanation as to the purpose of the activity and the benefit to the University. Of the 28 reimbursements tested, 24 were entertainment-related and four were other departmental expenditures.

All 24 entertainment reimbursements tested had a completed Entertainment Expense Form and were supported by original receipts; however, none had supervisory approval, and one did not clearly document a business purpose.
All four non-entertainment executive reimbursements chosen for testing were supported by original receipts, however, one lacked supervisory approval, and two of the four were approved by the individuals requesting the reimbursement.

**RECOMMENDATIONS**

Under current University policy, approval authority for travel requests and reimbursements is assigned to the immediate supervisor. During the course of the audit, we determined that some departments have instituted alternate procedures for the approval of pre-travel authorizations and employee reimbursements; however, these procedures do not follow current University policy, and therefore do not properly mitigate the associated risks.

**Recommendations:** University management should strongly consider implementing additional controls or enhanced oversight of travel and entertainment reimbursements to ensure that executive officers and key management personnel are aware of University policies and procedures and that appropriate diligence is applied to the process of reviewing and approving travel and entertainment documents. At a minimum:

- Prior to departure, travel transactions should have an approved pre-travel authorization (VE5).
- All reimbursements of executive travel/entertainment expenses must be approved by the person's immediate supervisor/manager. At no time should employees be allowed to approve their own reimbursements or authorize their own travel.
- All transactions/reimbursements related to employee travel or entertainment expenses should include a detailed business purpose.

**CONCLUSION**

We believe that additional attention is required to strengthen the process for the authorization and approval of travel and entertainment expenditures, and documentation of business purpose for executive and key management. Attention to these items will strengthen compliance with the Board of Regents' Rule 20205 *Expenditures for Travel, Entertainment, and Housing by Chief Administrators*.

We appreciate the cooperation and assistance provided by the Information Technology and Financial Service departments throughout our audit.