Report on UTP Employee Reimbursement Process #14-109

We have completed our audit of UT Physicians (UTP) employee reimbursement process. This audit is part of our fiscal year 2014 audit plan and was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

BACKGROUND

UTP is the clinical practice of the University of Texas Medical School at Houston (UTH) and provides multi-specialty care for adults, adolescents and children. UTP was founded in 1995 as a 501(c)3 nonprofit organization. With clinical locations and physicians positioned throughout the greater Houston area, UTP was the fastest growing academic practice in the nation for the last five years. Historically, UTP operations have functioned separately from UTH, including procurement and employee reimbursement.

OBJECTIVES

The objective of this audit was to determine whether expenditures and employee expense reimbursements at UTP were reasonable and appropriate.

SCOPE AND METHODOLOGY

Auditing and Advisory Services (A&AS) reviewed expenditures and employee expense reimbursements at UTP for FY 2013 and FY 2014. A sample was selected and supporting documentation reviewed for proper approval, adequate support, mathematical accuracy, adequate and appropriate business purpose, compliance with spending limits, and lack of prohibited items.

AUDIT RESULTS

Guidance

We reviewed the UTP Employee Handbook (handbook), the “Summary of Understanding UTP Travel Policy” (travel policy), and the “Detailed Summary of UTP Travel Expense” (travel expense form) form, as well as other applicable policies and procedures. The Employee Handbook is dated October 2013. The travel policy and travel expense form are not dated; however, we noted use of the travel expense worksheet in February 2013 and therefore assume both of these documents were in force for the majority of the period under review.
Employee Expense Reimbursements
We selected a sample of 20 employee expense reimbursements for testing. The sample was judgmentally selected, focusing on large dollar amounts and unexpected or unusual account codes. For example, we noted approximately $12,000 coded as chartered airfare. Since we would not expect to see travel expensed to this code, we included three expenditures in our sample. Each was miscoded and actually represented an expense for commercial airfare.

We noted that in five of six travel reimbursements, the travel expense form was used, however, not in a consistent manner. The form is designed for entry of detailed expenditures by date. Expenses were often entered as a total amount for all days of travel. By entering expenses in total, reconciliation becomes more difficult and increases the risk of error. UTP policies require that in order for registration fees to be reimbursed, a copy of the conference brochure or other written communication must accompany the request for reimbursement. The employee expenses reimbursed from our sample did not contain evidence of a conference brochure or written correspondence. Without documentation to support the length of the conference and information concerning meals, there is a risk that employees can be reimbursed for an incorrect length of stay, meals that were included in conference fees, or for a trip having no business purpose.

Additional Testing
We noted four employees with consistently large and frequent reimbursements. These individuals were reimbursed a cumulative total of $215,000 in reimbursements for the two fiscal years under review. We increased our sample size and looked at 25 reimbursements to these individuals. Many of these expenditures were for items not normally included as employee reimbursements. Examples of expenditures reimbursed were several refrigerators, advertising expenses, furniture, and utility deposits. These are items that should be covered through normal procurement procedures. Many of these expenditures did not include an explanation of the business purpose. As a result, we were unable to obtain reasonable assurance that many of the expenditures reimbursed were appropriate.

Included in this sample were three reimbursements for employee travel. The travel expense form for travel reimbursements was not used in these reimbursements. For the other types of employee expense reimbursements, there was no expense worksheet. As a result, we encountered difficulty in reviewing the reimbursements. For example, we initially believed one individual was over reimbursed $1,250 for a duplicate reimbursement. After discussion, we found one receipt had been submitted twice and another omitted. In another case, we noted one employee was reimbursed incorrectly on two separate trips. Included in the travel receipts were personal expenditures that could call into question the business purpose of the trip. Overpayments totaling $105 were made, which the employee has agreed to repay.

We also noted some items that were reimbursed in violation of the UTP handbook or travel policy. We noted one employee paid and submitted expense reimbursements for other employees’ conference fees and, in one case, airfare. We noted inconsistencies in documentation related to the purchase of meals. Most reimbursements did not include the business purpose and a list of attendees.
We found employee expense reimbursements for items not addressed in UTP policies, but that would clearly be in violation of UTHHealth policy. On two occasions, gasoline company gift cards totaling $3,000 were purchased on an employee’s personal credit card and reimbursed. Documentation stated the cards were to be used as employee rewards. Gift cards are cash equivalents and require specific controls over their purchase. We also noted on three occasions an employee was reimbursed for college tuition totaling $3,530, before the class work was completed. There is a risk the employee can drop the class after reimbursement and receive a tuition refund from the school.

Recommendation #1:
We recommend UTP develop and establish a comprehensive set of policies and procedures covering expense reimbursements. Since UTHHealth has already established policies and procedures based upon industry best practice and the Medical School employee reimbursement team is already familiar with those policies, we believe it would be efficient to adopt and enforce those policies for use by UTP employees.

Management’s Response:
UTH Physicians will have a comprehensive set of policies and procedures covering expense reimbursement approved by the UTP Board.

Responsible Party: Andrew R. Casas
Implementation Date: November 1, 2014

Recommendation #2:
We recommend UTP review their employee expense reimbursement processes. The practice of allowing employees to cover normal business expenditures using personal funds and then seek reimbursement should be discontinued. UTP should work with procurement to establish processes to complete purchases through normal procurement channels.

Management’s Response:
We agree. UTH Physicians will work with procurement on adopting polices that can be incorporated to the purchases made to support the clinical practice including the acquisition needs in the field.

Responsible Party: Andrew R. Casas
Implementation Date: November 1, 2014

Expenditures
We queried UTP expenditures for all transactions recorded in the PeopleSoft Financial Management System. Included in our review were expenditures for items such as advertising, computer equipment, software, consumable supplies, educational/training services, membership dues, official functions and professional services.

We selected a sample of 38 vouchers based on type of expense and large dollar expenditures. In general, expenditures appeared to contain sufficient documentation to support the business purpose, were properly approved, mathematically accurate, and lacked prohibited items.
However, we noted exceptions on 4 of the 38 vouchers. For these four vouchers, exceptions were noted where adequate supporting documentation was not provided or an appropriate business purpose was not indicated in order to substantiate the expenditure. All of the exceptions were related to official function expenditures. In three cases, the official function form was not included in the supporting documentation. For the last case, alcohol was served; however, an approval to serve alcohol form was not present in the documentation.

CONCLUSION

Opportunities were identified to enhance the UTP control environment over expenditures and employee reimbursements. Recommendations were made pertaining to the development and implementation of comprehensive policies and procedures covering UTP expenditures. Another recommendation was made to discontinue the practice of using the employee expense reimbursement process to pay for normal business expenditures.

We would like to thank the Medical School expense reimbursement team, and the individual managers from UTP who assisted us during our review.

Daniel G. Sherman, MBA, CPA, CIA
Assistant Vice President

DGS:wnq

cc: Audit Committee
    Andrew Casas
    Dr. Nancy McNiel
    Angela Hintzel Smith
    Michael Tramonte
    Richard Rawson

Audit Manager: Nat Gruesen, CIA, CISA, CFE
Auditor Assigned: Kenneth Hopkins, CPA, Cara Saldivar, Diarra Boye

Issue Date: 8/12/2014