

UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO
INTERNAL AUDIT & CONSULTING SERVICES
Executive Committee Expense Review (13-26)
May 28, 2013



BACKGROUND INFORMATION

Travel and entertainment expenses at the University of Texas Health Science Center at San Antonio are governed by state law and policies at the UT System and institutional levels. Under UT System policy, annual audits are required of travel and entertainment expenses incurred on behalf of institutional presidents. In an effort towards more progressive and transparent accountability, the UT System Chancellor has expanded this annual audit requirement to include the executive officers of each institution.

At the Health Science Center, the executive committee is comprised of five deans, 11 vice presidents, and one at-large member. Travel and entertainment expenditures for executive committee members in fiscal 2012 amounted to approximately \$131,000. Eighty-three percent was related to travel, and 17 percent was for entertainment.

Executive travel represented 2% of total institution-wide travel expense in 2012, and executive entertainment made up 0.4% of institution-wide entertainment expense. Furthermore, 2012 institution-wide entertainment expense represents a decrease of 18% from 2010 amounts, and a decrease of 5% from 2011.

OBJECTIVE AND SCOPE

The objective of the audit was to determine if executive travel and entertainment expenditures were properly approved, had adequate supporting documentation and complied with state regulations and institutional policies. The scope of the audit included travel and entertainment expenses reimbursed to or paid on behalf of executive committee members during fiscal year 2012.

We conducted our audit in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

SUMMARY OF RESULTS

Internal Audit reviewed \$119,077 or 91% of executive committee travel, entertainment, and direct-billed airfare expenditures. This included 93% of all executive committee travel expenses and 83% of entertainment reimbursements. The testing included a representative number of transactions for each executive committee member. Based on test results, Internal Audit noted the following areas for improvement:

- Hierarchical approval. Executive expenses should be approved hierarchically, by someone who does not report to the individual being reimbursed. Such approval promotes a commitment to transparency and propriety for the whole institution. The requirement for hierarchical approval was not formalized as an institutional policy. Furthermore, no guidance existed related to the hierarchical approval of travel requisitions and direct-billed airfare. Hierarchical approval was not obtained for 76 of the 199 (38%) travel and entertainment vouchers reviewed. In addition, 59% of all direct-billed airfare paid on behalf of executive committee members was not approved hierarchically within the purchasing system.
- Conservation of funds. Some expenses were noted which, although allowable under institutional policy, may not represent an efficient use of institutional funds.
- Documentation of benefit to institution. Some travel and entertainment reimbursement vouchers contained a repeated, generalized explanation of the benefit to the institution. Institutional policy requires that the purpose and benefit of travel and entertainment be descriptive and specific.

These items, along with recommendations and management action plans, are detailed in the attached table of Issues and Recommendations. We would like to thank management for the support and assistance provided during this audit.

SUMMARY OF SIGNIFICANT FINDINGS

This audit identified no findings considered significant to the institution. According to the UT System Policy 129 – Internal Audit Activities, an audit finding identified as significant is one that is material to the operation, financial reporting, or legal compliance of the institution. The UT System Audit Office receives and tracks significant audit findings on a quarterly basis. It also provides a summary report to the UT System Internal Audit Committee and the Audit, Compliance, and Management Review Committee of the UT System Board of Regents.

DISTRIBUTION

- Dr. William Henrich, President
- Mr. Michael Black, Senior Executive Vice President and Chief Operating Officer
- *Ms. Andrea Marks, Vice President and Chief Financial Officer
- Dr. Kenneth Shine, Executive Vice Chancellor for Health Affairs, UT System
- Mr. J. Michael Peppers, Chief Audit Executive, UT System

An ^{**} preceding your name indicates you are required to respond to recommendations contained in this report; an adequate response describing the action taken or planned is required to be sent to the Director, Internal Audit.

<p>APPROVED FOR RELEASE</p>	<p>CHIEF AUDIT EXECUTIVE, INTERNAL AUDIT & CONSULTING SERVICES</p> <p><i>Carla Cashie</i></p>	<p>AUDITORS J. Bledsoe R. Miller</p>
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Issues and Recommendations

	Observation/Condition	Business Implication	Recommendation	Management Action Plan	Due Date	Responsible Party
1	<p>Hierarchical Approval. Over \$55,000 in executive travel and entertainment expenses were approved by employees who were the executive committee members' direct reports.</p> <p>Our review found that these expenses were otherwise reasonable and necessary to carry out the individual's official responsibilities.</p> <p>The requirement for hierarchical approval exists in the form of a memo from the Chief Operating Officer; however, hierarchical approval has not been formalized as an institutional policy.</p> <p>Furthermore, no guidance exists related to hierarchical approval of electronic travel requisitions and direct-billed airfare.</p>	Lack of review by a higher ranking individual may lead to unauthorized or inappropriate reimbursements.	As noted in a 2009 audit conducted by the UT System Audit Office, executive travel and entertainment expenses should be approved by someone who does not report directly to the individual being reimbursed in order to present the correct "tone at the top" and elevate the expectations of others at the institution.	The Chief Financial Officer will formalize hierarchical approval of electronic travel requisitions, which include direct billed airfare, in the HOP Policy 6.2.9 – <i>Authorization to Travel for Employees, Students and Residents.</i>	8/31/2013	VP/CFO
2	<p>Conservation of Funds. Institutional policy 6.2.1 requires conservation of institutional funds to achieve maximum economy and efficiency.</p> <p>Some expenses were noted which, although allowable under institutional policy, may not represent an efficient use of institutional funds. These expenses included lodging expenses exceeding the state rate in</p>	A perception of imprudent spending by a publicly supported institution could damage the institution's reputation and fund-raising ability.	The President should remind executives of the importance of conservation of funds, from both a financial and reputational perspective.	Subsequent to the time period included in this audit, the Chief Financial Officer held a training session for all executive committee members regarding travel and entertainment expenses. In the	Complete	President

	Observation/Condition	Business Implication	Recommendation	Management Action Plan	Due Date	Responsible Party
3	<p>Locations where state rates were widely available; the combined amount exceeding the state rate for 11 trips was \$706. The reimbursement requests did not document a justification for the higher-rate hotel.</p>			<p>session, the CFO and the President commented on the importance of conservation of funds.</p>		
	<p>Documentation of Benefit to Institution Seven travel and entertainment reimbursement vouchers contained a repeated, generalized explanation of the benefit to the institution. Institutional policy requires that the purpose and benefit of travel and entertainment be descriptive and specific.</p>	<p>Lack of documentation of the specific benefit to the institution could have tax implications for the individual being reimbursed.</p>	<p>Individuals who prepare reimbursement vouchers should document the specific benefit to the institution when preparing travel and entertainment vouchers. Generic descriptions such as "In keeping with role as VP" or "Information gained will benefit the activities of the institution" should be avoided.</p>	<p>Subsequent to the time period included in this audit, the Chief Financial Officer held a training session for all executive committee members regarding travel and entertainment expenses. In the session, the CFO addressed the need for specific, detailed descriptions of an expenditure's benefit to the institution.</p>	Complete	VP/CFO