AUDIT REPORT

TO: Jerry Long, Ph.D., Assistant Vice President, Business Affairs
FROM: Angela D’Anna, Chief Audit Executive, Internal Audit and Consulting Services
DATE: April 1, 2015
SUBJECT: Executive Officer Travel and Entertainment Expenditures (15-09)

EXECUTIVE SUMMARY

Internal Audit and Consulting Services has reviewed Executive Officer Travel and Entertainment Expenditures at the UT Health Science Center San Antonio for the period September 1, 2013 to August 31, 2014. The objectives of the audit were to determine whether travel and entertainment expenditures paid directly on behalf of or reimbursed to executive officers and their teams were appropriate and accurate and to ascertain compliance with applicable laws, regulations, policies and procedures. The audit was performed at the request of the UT System Audit Office using a risk-based audit approach. Additionally, we performed data analytics, including the application of Benford’s Law, to identify potential anomalies in the data.

In general, travel and entertainment expenditures paid directly on behalf of or reimbursed to executive officers and their teams were appropriate, accurate and in compliance with applicable laws, regulations, policies and procedures. The primary opportunity for improvement noted in this review related to supervisory approval of travel and entertainment expenditures. This audit identified no issues considered priority to the institution.

DETAILED REPORT

See attached.

AUDIT TEAM

Bob McDermott, Internal Auditor-Senior
Esther Villarreal, Internal Auditor-Intermediate

AUDITING STANDARDS

This review was conducted in accordance with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing.

DISTRIBUTION

Michael E. Black, Senior Executive Vice President and Chief Operating Officer
Eileen T. Breslin, Ph.D., Dean, School of Nursing
Yeman Collier, Vice President and Chief Information Officer
Mary G. DeLay, Vice President, Communications and Chief of Staff
Armando Diaz, Vice President, Governmental Relations
William W. Dodge, D.D.S., Dean, School of Dentistry
Francisco Gonzalez-Scarano, M.D., Dean, School of Medicine
Raymond S. Greenberg, M.D., Ph.D., Executive Vice Chancellor for Health Affairs, UT System
Andrea Giuffrida, Ph.D., Vice President, Research ad interim
William L. Henrich, M.D., President
DISTRIBUTION (Cont’d)

James D. Kazen, Executive Vice President, Facility Planning and Operations
Andrea Marks, Vice President and Chief Financial Officer
Joseph McCormick, M.D., Vice President, South Texas Programs
Jacqueline Lee Mok, Ph.D., Vice President, Academic, Faculty and Student Affairs
Deborah H. Morrill, Vice President, Institutional Advancement
Michael Peppers, Chief Audit Executive, UT System
David C. Shelledy, Ph.D., Dean, School of Health Professions
Michael Tesh, Vice President, Human Resources
David S. Weiss, Ph.D., Dean, Graduate School of Biomedical Sciences
DETAILED AUDIT REPORT

PURPOSE AND SCOPE

Internal Audit and Consulting Services has reviewed Executive Officer Travel and Entertainment (T&E) Expenditures at the UT Health Science Center San Antonio (Health Science Center) for the period September 1, 2013 to August 31, 2014. The audit was performed at the request of the UT System Audit Office using a risk-based audit approach. Additionally, we utilized ACL, a data analysis tool, to apply Benford’s Law which predicts the expected digit frequencies in data and identifies potential anomalies.

We reviewed certain travel and entertainment expenditures for thirty-five (35) executive officers or members of their leadership teams. The major objectives of the review were as follows:

- Determine whether T&E expenditures paid directly on behalf of or reimbursed to executive officers and their teams were appropriate and accurate.
- Ascertain compliance with applicable federal and State of Texas laws and regulations.
- Determine compliance with T&E policies and procedures of the UT System and the Health Science Center.

BACKGROUND

Expenditures for T&E are governed by federal and State of Texas laws and regulations, the Texas Comptroller of Public Accounts, the UT System Board Regents’ Rules and Regulations, and the Health Science Center policies and procedures, as well as restrictions by grantors and donors.

In April 2013, the Vice President and Chief Financial Officer delivered a presentation to the Executive Committee members regarding hierarchical approval (approval by a supervisor or department head), conservation of funds, and documentation of business purpose and institutional benefit of T&E expenditures. Additionally, in October 2013, the Office of Business Affairs formalized the requirement for hierarchical approval by strengthening certain policies and procedures related to T&E.

Travel and entertainment expenses amounted to 1.4% of the $763.7M operating budget during fiscal year 2014. Since 2010, T&E expenditures have declined by 18% as depicted below:

Trends in T&E Expenditures FY10 - FY14

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Travel Expenditures</th>
<th>Entertainment Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$7,000,000</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>2011</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>2012</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>2013</td>
<td>$4,000,000</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>2014</td>
<td>$5,3M</td>
<td>$5.2M</td>
</tr>
</tbody>
</table>

Note: Executive travel reimbursements represented approximately 9% of total FY14 travel expenditures.

Note: Executive entertainment reimbursements represented approximately 4% of total FY14 entertainment expenditures.
RESULTS

In general, T&E expenditures paid directly on behalf of or reimbursed to executive officers and their teams were appropriate, accurate and in compliance with applicable laws, regulations, policies and procedures. However, T&E expenditures were not always approved by the supervisors/department heads. One other opportunity for improvement was also noted.

This audit identified no issues considered priority to the institution. According to UT System Policy 129 – *Internal Audit Activities*, a priority audit issue is one that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of the institution or the UT System as a whole.

Attached are the recommendations, management action plans, responsible party, and anticipated completion dates. These matters are offered for management’s consideration in the spirit of continuously improving processes and reducing risks in the organization.
Supervisory Approvals

Opportunity for Improvement:

Our review revealed that certain T&E expenditures incurred by 14 of 35 (40%) employees did not have evidence of approval by the supervisors/department heads on the requisitions for travel authorization and expense vouchers.

Handbook of Operating Procedures (HOP) Policy 6.2, Travel Policies and Procedures, section 14, General Reimbursement Policies, requires reimbursement requests to be approved by the supervisor or department head (or by his or her designee) of the individual being reimbursed and specifies that a subordinate of the traveler is not a sufficient approver.

Supervisory approval of entertainment reimbursements is also required by HOP Policy 6.2.14. It should be noted that this requirement is included in the travel policy but not explicitly stated in HOP Policy 6.1.6, Requirements for Official Functions and Entertainment.

Supervisory approvals help to ensure the appropriateness of T&E expenditures.

Recommendation:

The requirement for supervisory approval of reimbursements for official business T&E expenditures should be reiterated to executive officers and their teams. Additionally, HOP Policy 6.1.6 should be revised to include supervisory approval of entertainment reimbursements.

Management's Action Plan:

Responsible Party(s): Jerry Long

Estimated Completion Date(s): August 2015

Management concurs. The requirement for supervisory approval of reimbursements for T&E expenditures will be reiterated to the Executive Committee members via memorandum and update to the General Compliance and Training module. Additionally, HOP Policy 6.1.6 will be revised to include the requirement for supervisory approval of the vouchers for entertainment reimbursements.
Meal Reimbursements at Per Diem Rate

Opportunity for Improvement:
Misinterpretation of Handbook of Operating Procedures (HOP) Policy 6.2.22, *Meals and Lodging Expenses on Travel Voucher*, resulted in certain employees occasionally being reimbursed for meals while on official business travel at a per diem rate without receipts.

HOP Policy 6.2.22 states that reimbursements for meals while on official business travel cannot exceed the federal per diem rates for the particular funds or cities. However, it does not specifically state that meals are not to be reimbursed at a per diem allowance as interpreted by the Texas Comptroller of Public Accounts (TxCPA). *Travel Policies and Procedures, Textravel, Meals and Lodging* from TxCPA specifies that, "State travel expense reimbursement is not a per diem. An employee must claim the actual expenses incurred for meals."

Recommendation:
HOP Policy 6.2.22 regarding reimbursements for meals while on official business travel should be revised to align with State of Texas travel policies and procedures.

Management’s Action Plan:
Responsible Party(s): Jerry Long
Estimated Completion Date(s): August 2015

Management agrees. HOP Policy 6.2.22 will be revised to specifically state that:

1. Meal reimbursements while on official travel are not paid as a per diem allowance and
2. Employees must claim actual expenses for meals while on official travel up to the per diem rate or other applicable limit.