



November 9, 2015

Dr. Kirk A. Calhoun, M.D.
UT Health Northeast
11937 U. S. Hwy 271
Tyler, TX 75708

Dr. Calhoun:

In October 2012, the UT System Chancellor requested that annual audits of presidential travel and entertainment expenses, required by Regents' Rule 20205, be expanded to include UT System and institutional executives. As a result, our Office conducted an audit of executive travel and entertainment expenses as part of the institution's fiscal year 2016 audit plan. The objective of the audit was to determine whether travel and entertainment expenses paid by the institution on behalf of executive leaders are appropriate and in compliance with applicable laws, UT System, and UT Health Northeast's policies and procedures. The period reviewed was September 1, 2014 through August 31, 2015. Detailed results are included in the report.

This audit was conducted in accordance with guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. We appreciate the assistance provided by management and other personnel and hope the information presented in our report is helpful.

Sincerely,

A handwritten signature in black ink that reads "Kris I. Kavasch".

Kris I. Kavasch
Associate Vice President, Chief Audit Executive

Enclosure

cc:

Dr. Raymond S. Greenberg, UT System Executive Vice Chancellor for Health Affairs rgreenberg@utsystem.edu
Mr. J. Michael Peppers, UT System Chief Audit Executive systemauditoffice@utsystem.edu
Mr. Richard St. Onge, UT System Associate Vice Chancellor for Health Affairs richardstonge@utsystem.edu
Ms. Dyan Hudson, UT System Assistant Director, Specialty Audit Services dhudson@utsystem.edu
Mr. Joe Woelkers, Executive Vice President, Chief Operating Officer joe.woelkers@uthct.edu
Mr. Vernon Moore, III, Sr. Vice President, Chief Financial and Business Officer vernon.moore@uthct.edu
Dr. Jeffrey Levin, Sr. Vice President, Clinical & Academic Affairs jeffrey.levin@uthct.edu
Dr. Steven Idell, Sr. Vice President, Research & Graduate Studies steven.idell@uthct.edu
Mr. Daniel Deslatte, Vice President, Planning and Public Policy daniel.deslatte@uthct.edu
Mr. Thomas Brunette, Associate Vice President, Facilities Operations thomas.brunette@uthct.edu
Ms. Derrith Bondurant, Vice President, Institutional Advancement, Chief Development Officer derrith.bondurant@uthct.edu
Dr. Ifeanyi Elueze, Associate Professor of Medicine (Dean) manny.elueze@uthct.edu
Mr. Bob Armstrong, Associate Vice President, Controller bob.armstrong@uthct.edu
Ms. Claudette Clay, Director of Payroll Services claudette.clay@uthct.edu
Legislative Budget Board - ed.osner@lbb.state.tx.us
Governor - internalaudits@governor.state.tx.us
State Auditor's Office - iacoordinator@sao.state.tx.us
Sunset Advisory Commission - sunset@sunset.state.tx.us



Executive Travel & Entertainment Audit

November 9, 2015

**UT HEALTH NORTHEAST
OFFICE OF INTERNAL AUDIT
11937 US HIGHWAY 271
TYLER, TX 75708**

**UT Health Northeast
Executive Travel & Entertainment Audit
Fiscal Year 2016**

TABLE OF CONTENTS

Executive Summary.....4

Background.....4

Audit Objective.....5

Audit Scope and Methodology5

Audit Results6

Conclusion 11

**UT Health Northeast
Executive Travel & Entertainment Audit
Fiscal Year 2016**

Audit Report

Executive Summary

In October 2012, the UT System Chancellor requested that annual audits of presidential travel and entertainment expenses be expanded to include UT System executive officers and executive teams at each institution across the System. This year our audit covered travel and entertainment expenditures for eight members of the UT Health Northeast executive leadership team with titles including Dean, Associate Vice President, Vice President, Senior Vice President and the Executive Vice President.

We determined that travel and entertainment expenses paid by the institution on behalf of these executive leaders during fiscal year 2015 were appropriate. These expenditures were also substantially in compliance with applicable laws and UT System policies and procedures, although we identified a number of errors, policy deviations, and documentation deficiencies in relation to UT Health Northeast's policies and procedures.

UT Health Northeast paid travel expenses for one foreign travel event on behalf of one of the eight executives included in this audit.

Background

The University of Texas System institutions are governed by state laws and rules and regulations promulgated under those laws, as well as by System-wide and institutional policies and procedures concerning expenses incurred by officials for travel, entertainment and housing. The Board of Regents of the University of Texas System, recognizing the importance of oversight and accountability, transparency, and fiscal responsibility, implemented Board of Regents' Rule 20205, *Expenditures for Travel and Entertainment by Chief Administrators and for the Maintenance of University Residences*. Rule 20205 prescribes, clarifies, and provides uniformity in the approval, review, and audit process for travel and entertainment expenses incurred by the institutions' presidents and their spouses, and for expenses for the maintenance of university residences.

Since fiscal year 2007, the UT Health Northeast Office of Internal Audit or the UT System Audit Office has conducted audits of the institution's President and his spouse in accordance with Rule 20205. In October 2012, the UT System Chancellor requested these audits be expanded to include travel and entertainment expenses of the UT System executive officers and executive teams at each institution across the System. Accordingly, this fourth-year engagement was approved by the UT Health Northeast Internal Audit Committee as part of the institution's fiscal year 2016 work plan.

**UT Health Northeast
Executive Travel & Entertainment Audit
Fiscal Year 2016**

Audit Objective

The objective of the audit was to determine whether travel and entertainment expenses paid by the institution on behalf of executive leaders are appropriate and in compliance with applicable laws, UT System, and UT Health Northeast policies and procedures.

Audit Scope and Methodology

UT System Audit empowered each institutional audit office to determine the time scope according to the starting date of the engagement, and the executive population scope based on an assessment of financial and reputational risk. The scope for this audit was FY 2015 (September 1, 2014 through August 31, 2015). To determine which executives to include in this audit, we considered the institutional hierarchy, executives' span of authority, dollar or transaction volume, and results of prior audits performed. For FY 2016, we included the following eight executives in the audit:

- Executive Vice President, Chief Operating Officer
- Senior Vice President, Chief Financial and Business Officer
- Senior Vice President, Research and Graduate Studies
- Senior Vice President, Clinical and Academic Affairs
- Vice President, Planning and Public Policy
- Associate Vice President, Facilities Operations
- Associate Vice President, Institutional Advancement, Chief Development Officer
- Associate Professor of Medicine (Dean)

To accomplish the audit objective, we performed the following procedures, among others:

- Reviewed and updated documentation of institutional policies and business processes governing travel and entertainment expenditures
- Performed a risk assessment and identified the institution's risk management and control processes in place to address these risks
- Identified criteria applicable to the activity, including Regents' Rules, UT System and institutional policies and procedures, bylaws, and state regulations
- Queried vendor transactions for the executive leaders and similar or related names, and scanned general ledger accounts typically used for travel and entertainment expenses to identify potential direct payments made on behalf of executive leaders, in order to establish completeness of the population of transactions
- Tested a sample of travel, entertainment, and potentially similar expenditures to determine whether they were properly approved; adequately supported; mathematically accurate; for an appropriate business purpose; and in compliance with applicable laws, policies and procedures

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

**UT Health Northeast
Executive Travel & Entertainment Audit
Fiscal Year 2016**

Each issue identified was assigned a risk ranking under guidelines established by The University of Texas System. According to the University of Texas System, a priority finding is 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. Standard factors for determining a priority finding were established in three categories: namely, Organizational Controls, Quantitative Risks, and Qualitative Risks”. For each issue, the risk factor probability was ranked as either priority for reporting to the UT System Board of Regent’s Audit, Compliance and Management Review Committee or high, medium or low for institutional reporting only.

Audit Results

Travel and Entertainment Expenses

Travel and other reimbursements made to the thirteen executives whose travel and entertainment expenses were reviewed totaled \$75,548 combined for FY 2015. We scanned all of the reimbursements made and there were no reimbursements which were significant in amount or appeared to be unusual for the institution. We judgmentally selected and tested a sample of 30 travel and entertainment transactions totaling \$25,322 and all FY 2015 foreign travel costs of approximately \$2,900 for these employees which included reimbursements and payments made directly to vendors on their behalf. We focused selections in travel account codes and account codes where entertainment expenses are usually charged.

We determined that travel and entertainment expenses paid by the institution on behalf of these executive leaders during fiscal year 2015 were appropriate. These expenditures were also substantially in compliance with applicable laws and UT System policies and procedures, although we identified a number of errors, policy deviations, and documentation deficiencies in relation to UT Health Northeast’s policies and procedures.

- a. One executive's office improperly inserted a copy of the executive's signature into a reimbursement request voucher using a copy/paste function. The executive’s office started electronically inserting the executive’s signature in travel and entertainment documents during times when he was away from campus in an attempt to expedite the processing of reimbursements and payments. All transactions tested were appropriate business expenses pertaining to the executive and we do not believe the department had any intent to deceive or initiate improper transactions when implementing this process. The reimbursement request voucher process requires the employee who is requesting reimbursement from the institution to personally certify the accuracy of the cost reimbursement so stamping or pasting the employee's signature is not appropriate. In addition, for this reimbursement voucher, the reimbursement to the executive was authorized by an employee who directly reports to the executive in lieu of the executive's superior. Upon notification by Audit, the executive’s office immediately discontinued using the copy/paste function for the executive’s signature. Also, they immediately reviewed their office’s authorization practices and

**UT Health Northeast
Executive Travel & Entertainment Audit
Fiscal Year 2016**

- revised them to follow the institutional account signature authorization forms for purchases and organizational reporting hierarchy for employee reimbursements.
- b. Gift cards totaling \$400 were purchased and provided to several UTHNE faculty members, a local physician, and an institutional administrative staff member for either speaking or coordination efforts for an off-site local conference. The payment was made to the vendor for the purchase of the gift cards but there was no information concerning who received the gift cards or the denomination of each within the payment voucher; however, Internal Audit subsequently obtained the detailed distribution information from the department. Details concerning the gift cards distributed were not submitted to Payroll or the Accounts Payable Department for W-2 and 1099 reporting, although the IRS considers the value of gift cards reportable on an employee's wages regardless of the amount and reportable for non-employees when amounts paid accumulate to \$600 for each recipient. Internal Audit reported the gift card amounts and details to Payroll and Accounts Payable for tracking and reporting.
 - c. The Accounts Payable Department in error, reimbursed one of the executives included in the audit \$705.86 for travel expenses which were incurred by another employee. The error originated by the department inserting an incorrect vendor number on the reimbursement forms and Accounts Payable staff did not identify the error when processing the transaction. When Internal Audit notified Accounts Payable and the department about the error, the executive immediately reimbursed the institution for the error and the Accounts Payable staff processed the reimbursement to the correct employee. The Accounts Payable Supervisor immediately implemented processes for validating vendor numbers on travel payment documents before authorizing for payment.
 - d. Accounts Payable over-reimbursed one executive in the amount \$90.67 for mileage expense for one travel event. The calculation error was made by the department due to incorrectly including mileage reimbursement for miles traveled in a rental car and the error was not identified by Accounts Payable while processing the payment. Costs for this travel are expected to be reimbursed by an external organization. As a result, we reviewed billing to the external organization and found the executive's office overbilled the organization by \$229.71. The \$229.71 overbilled to the organization includes the \$90.67 over-reimbursement of mileage costs and excludes a \$139.04 refund from the airlines to UT Health Northeast which resulted from flight schedule changes. Upon notification of the error the executive immediately reimbursed the institution \$90.67 for the over-reimbursement and the executive's office is working with the external organization to correct the billing.
 - e. There were policy violations and documentation deficiencies within business meal reimbursement vouchers caused by the offices of the executives' process weaknesses for ensuring voucher documentation was in accordance with UTHNE entertainment policies and documentation standards, followed by Accounts Payable not enforcing the policy requirements, as follows:
 - Executives are not consistently ensuring adherence to meal and gratuity limits set by institutional policy. There were two meal reimbursements where the

**UT Health Northeast
Executive Travel & Entertainment Audit
Fiscal Year 2016**

charges exceeded the institution's dinner maximum of \$75 in meal costs for each participant. There were three meal reimbursements where the tip exceeded the 18% gratuity maximum of the total meal charges.

- Two business meal reimbursements made to executives were not approved by a member of the senior management team who did not participate in the meal as required by institutional entertainment policies.
 - For one meal reimbursement, no detailed meal receipt was included within voucher documentation.
 - For three meal reimbursements/payments, there was no business justification documented to support the meal was business agenda driven.
 - Executives are not consistently ensuring their meal reimbursements are completed and to Accounts Payable within 10 days as required by policy.
 - For one business meal reimbursement the documentation did not include the business justification for the meal that supports the purpose of the endowment fund from which the expense was paid.
- f. There were documentation deficiencies within travel vouchers caused by the offices of the executives' process weaknesses for ensuring voucher documentation was in accordance with UTHNE travel policies and documentation standards and Accounts Payable did not enforce the policy requirements as follows:
- Two reimbursement vouchers did not include MapQuest mileage sheets
 - One reimbursement did not include a General Services Administration rate sheet
 - Detailed meal receipts were not included with request documentation for three meal reimbursements
 - Three travel vouchers were coded to incorrect travel account codes
 - Two reimbursements were not submitted to Accounts Payable within 14 days of the last day of the travel
 - A revised Request for Travel Authorization form was not completed for one trip when charges exceeded 10% of the amount initially approved
 - One Request for Travel Authorization form was not signed by the executive's superior
 - One reimbursement voucher did not include conference or meeting information
 - The purpose documented for one travel reimbursement was not supportive of the restricted purpose of the account used to pay the expense

Recommendation(s) #1:

The Controller, in collaboration with the Director of Payroll Services, should develop and implement processes and empower Accounts Payable management, in their centralized processing functional role for travel and entertainment expenses, to consistently enforce UT Health Northeast travel and entertainment policies and documentation standards for all employees, including executive leaders. To reduce future errors, deviations from policies and

**UT Health Northeast
Executive Travel & Entertainment Audit
Fiscal Year 2016**

documentation deficiencies, Accounts Payable should implement a process for resolving the documentation deficiencies by either requiring the department or Accounts Payable staff to resolve the deficiencies. Accounts Payable should implement processes for training employees in travel and entertainment policies and procedural requirements.

Alternately, the Controller in collaboration with key executive leaders should consider reviewing and revising institutional travel and entertainment policies and documentation standards to delineate between policies and documentation standards management expects to be enforced and those that are optional. If this path is chosen, management should ensure procedures are implemented for enforcing the policies and documentation requirements deemed to be non-optional.

The Controller, in collaboration with executive leaders should develop institutional policies and procedures concerning the purchase of gift cards including guidance about when these purchases are appropriate and reporting requirements.

Issue Ranking: Low

Management's Response: The Director of Payroll Services in collaboration with the Controller and key executive leaders will review and revise institutional travel and entertainment policies and documentation standards as deemed appropriate. Procedures will be implemented within Accounts Payable processing for consistently enforcing the revised policies and documentation standards. The Accounts Payable Supervisor will implement processes for training employees in travel and entertainment policies and procedural requirements. The Controller will collaborate with key individuals to develop institutional policies and procedures addressing the purchase of gift cards, including guidance about when these purchases are appropriate and reporting requirements.

Implementation Date(s): On or before March 31, 2016

UT Health Northeast departments and Accounts Payable do not have adequate procedures in place for tracking and reconciling the inventory of UTHNE unused airline tickets on record with Corporate Travel Planners (CTP). When a traveler changes their travel itinerary, the travel planner issues a new airline ticket and new charge in addition to the charge for the initial non-refundable ticket purchased that becomes part of the UTHNE unused ticket inventory. UTHNE has paid for these unused non-refundable tickets and they remain on record with the travel planner until the vendor applies the value of an unused ticket to one of the traveler's subsequent travel events. Should the traveler who has unused tickets not travel or select the option to apply the unused tickets to a separate travel event within one year the tickets expire. Accounts Payable obtains a monthly report of unused airline tickets on record with the travel planner but no reports are provided to the institution documenting the application of unused airline tickets or the travel planner's charge for applying the tickets.

**UT Health Northeast
Executive Travel & Entertainment Audit
Fiscal Year 2016**

Recommendation #2: The Controller, in collaboration with the Director of Payroll Services, should develop policies addressing topics such as the purchase of refundable and non-refundable airline tickets, and when it is appropriate to incur additional airfare costs for travel itinerary changes. In addition, institutional processes need to be prescribed and implemented for tracking and reconciling unused airline tickets and related costs. The Director of Payroll Services should work with the travel planner to develop or obtain additional reports that will allow the institution to better manage unused tickets. Additional travel costs resulting from incurring and applying unused tickets to separate travel events should be properly identified and monitored. Adequate information needs to be made available to employees who travel, schedule travel, and reconcile the department's accounts to allow them to better manage unused airline tickets and the department's travel costs.

Issue Ranking: Low

Management's Response: The Director of Payroll Services will collaborate with the Controller and key executive leaders in developing guidance concerning purchasing refundable or non-refundable airline tickets and making travel itinerary changes. The Director of Payroll Services will develop procedures for managing and reconciling unused refundable and non-refundable airline tickets and related costs. Employees who are involved in travel scheduling and management of unused tickets will be trained in the new processes. The Accounts Payable Supervisor will work with the travel planner to develop or obtain additional monthly reports that will allow the institution to better manage unused airline tickets.

Implementation Date: On or before March 31, 2016

Due to the travel reimbursement payment and documentation errors identified for the executives included in the audit, we performed additional review of institutional travel payments to determine if systemic problems exist, whether all errors have been corrected and to identify the cause of errors. In summary, although there were payment and data errors identified, the payment errors have been corrected and processes have been implemented to reduce the risk for these types of data errors. Detailed errors and data variances identified were as follows:

- There were a few instances where Accounts Payable incorrectly reimbursed one employee for a separate employee's travel, in addition to the one payment error we identified for an executive. This was caused in part by departments inserting an incorrect vendor number in travel reimbursement forms and in part by Accounts Payable not having a process for validating the accuracy of vendor numbers when processing the payment. We found that FY 2015 travel payment errors identified were corrected by September 30, 2015. Accounts Payable processes were implemented immediately in October 2015 for the Accounts Payable Supervisor to begin validating vendor numbers on the travel payment/reimbursement documents before authorizing the transactions for payment, which is expected to reduce the risk for these errors in future processing.
- There were several instances where the vendor information in PeopleSoft Financial system did not agree with the transaction line description information for travel

**UT Health Northeast
Executive Travel & Entertainment Audit
Fiscal Year 2016**

reimbursements and payments. We reviewed these and found the cause of the errors was Accounts Payable staff incorrectly using the copy feature in PeopleSoft. No identified payment errors resulted from these practices but line description information noting traveler, date of travel and travel location are inaccurate for some travel reimbursement transactions in FY 2015. When Audit informed Accounts Payable management about the errors, Accounts Payable staff was immediately instructed on the proper use of the line description copy feature to eliminate these line description detail errors for future transactions.

- Other travel transaction and documentation deviations noted within FY 2015 travel payments and reimbursements included several instances where the employee's name and signature on travel documents did not match the vendor name or employee name in PeopleSoft Financials and HCMS. Although there is no official documentation on file we believe these most likely were employee name changes resulting from an employee's life change such as marriage and their failure to update their personal data on file with the Office of Human Resources. Internal Audit promptly notified the Office of Human Resources about the employee data variances for their office to address in accordance with UT Health Northeast employee policies.

Review for Other Reimbursements or Payments

We queried vendor transactions for the executives' spouses or similar related individuals. We did not identify any travel or entertainment expenses incurred by the executives' spouses or similar related individuals that were paid by UT Health Northeast.

Conclusion

Travel and entertainment expenses paid by the institution on behalf of these executive leaders during fiscal year 2015 were appropriate. These expenditures were also substantially in compliance with applicable laws and UT System policies and procedures, although we identified a number of errors, policy deviations, and documentation deficiencies in relation to UT Health Northeast's policies and procedures.



Kris I. Kavasch, Associate Vice President, Chief Audit Executive