February 26, 2013

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Dr. Calhoun:

In October 2012, Chancellor Cigarroa 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 FY 2013 audit plan.

The objective of the audit was to determine whether travel and entertainment expenses paid by the institution on behalf of executive leaders were appropriate and in compliance with applicable laws, UT System, and the University of Texas Health Science Center at Tyler policies and procedures. The period reviewed was September 1, 2011 through August 31, 2012.

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,

Kris I. Kavasch
Director of Internal Audit

Enclosure

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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. At UTHSCT, we identified the leadership team of one executive vice president and four vice presidents as the most appropriate group to incorporate into the first year of this engagement.

In our opinion, travel and entertainment expenses paid by the institution on behalf of the executive vice president and four vice presidents during fiscal year 2012 were appropriate and predominantly in compliance with applicable laws, UT System, and the University of Texas Health Science Center at Tyler policies and procedures.

To sustain appropriateness of executive travel and entertainment expenses and compliance with applicable laws, policies, and procedures, the institution has opportunities to improve controls in the following areas, with which it is substantially, but not consistently, compliant:

- Conformity to institutional policies and best practices governing the level of documentation that should accompany travel requests and vouchers, including conference or meeting agendas, detailed receipts, proof of payment for reimbursements, and detailed mileage documentation
- Adherence to an institutional daily lodging rate cap, or alternate development of a policy and corresponding process to allow for limited exceptions for valid, documented business reasons
- Retention and submission of detailed receipts to support business meal reimbursements
- Obtainment of proper authorizations and approvals, including those governing physician practice plan, sponsored program, and reimbursed expenses

UTHSCT executive leaders as a whole incurred foreign travel expenses for only one trip during the year. This foreign trip was for an appropriate business purpose, and adequately supported.

Background

The University of Texas System institutions are governed by state laws and rules and regulations promulgated under those laws, as well as by Systemwide 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 UTHSCT Office of Internal Audit has been conducting audits of the UTHSCT 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 engagement was approved by the UTHSCT Internal Audit Committee as part of the institution’s fiscal year 2013 work plan.

**Audit Objective**

The objective of the audit was to determine whether travel and entertainment expenses paid by the institution on behalf of executive leaders were appropriate and in compliance with applicable laws, UT System, and the University of Texas Health Science Center at Tyler policies and procedures.

**Audit Scope and Methodology**

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. Given that this audit began in the first half of FY 2013, we determined the appropriate time scope to be September 1, 2011 through August 31, 2012. To determine the executives in scope, we performed a risk assessment to conclude that the following executive leaders were most appropriately incorporated into the first year of this engagement:

- Executive Vice President and Chief of Staff
- Vice President, Chief Business and Financial Officer
- Vice President, Chief Development Officer
- Vice President, Research and Graduate Studies
- Vice President, Clinical and Academic Affairs and Physician-in-Chief

Within this population scope, we judgmentally selected for testing travel and entertainment transactions, by executive, to ensure we considered:

- The dollar amount of trips and transactions for each executive relative to the total dollar amount of trips and transactions for all five executives in scope
- The volume of trips and transactions for each executive relative to the total volume of trips and transactions for all five executives in scope
- Higher cost trips
- Out-of-state trips
- Foreign trips
- Uncommon transactions
- Both reimbursed expenditures and expenditures paid directly on behalf of the executives, their spouses, or similar related individuals
- A variety of fund and department combinations
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, 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 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
- Obtained and reviewed executives’ appointment letters and compared terms of their appointments to institutional payroll records, to determine whether this payment mechanism was used to pay for travel, entertainment, or any other expenses beyond the all-inclusive base salaries approved by the UTHSCT President

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.

**Audit Results**

**Travel and Entertainment Expenses**

We reviewed financial transactions, reimbursement documentation, and reports; and made inquiries to determine whether each selected expenditure was:

- properly approved;
- adequately supported;
- mathematically accurate;
- for an appropriate business purpose; and
- in compliance with applicable laws, policies and procedures

During our testing we noted that UTHSCT executive leaders as a whole incurred foreign travel expenses for only one trip during the year. The executive who traveled out of the country was formally invited to present research abstracts at an annual congress that directly relates to sponsored research performed in his institutional role.

We determined travel and entertainment expenditures reimbursed to executive leaders, as well as similar expenditures made on their behalf, substantially met the five criteria listed above. The following aspects of this overall affirmative outcome warrant further discussion:
We noted five travel vouchers whereby the level of documentation was insufficient to adequately substantiate the business purpose and dates of conferences or meetings without performing additional research. The travel vouchers commonly contained a short description of the business purpose and the benefit to the institution on the voucher form, but did not include conference or meeting agendas. In all cases we were able to substantiate the validity of the business purpose by obtaining additional information via internet research or by obtaining vouchers for the corresponding conference or training registration fees. However, as time passes, the institution runs the risk that additional supplemental information required to corroborate the business purpose and dates of meetings and conferences may no longer be readily available or accessible.

We also identified two instances whereby the documentation to support the specific charges was insufficient compared to the level of detail required by institutional policies. In one instance, the documentation included only a credit card receipt, but lacked an accompanying detailed receipt. In the second instance, proof of payment in the form of a credit card statement excerpt was not submitted with the reimbursement request. In both cases the information supplied was sufficient to reasonably infer the expenditure was incurred by the traveler for the valid business purpose stated on the voucher or payment request form, when considering the documentation associated with the reimbursement request as a whole. Still, institutional travel policies have been established with documentation standards designed to lower the risk of invalid or inaccurate reimbursements.

We also noted three instances whereby mileage expense was reimbursed without the required internet mileage print-out, as required by institutional policy. In all three cases we were able to support the amounts reimbursed as being reasonable by independently entering the city destinations into an internet map system. Again, institutional travel policies have been established with documentation standards designed to lower the risk of invalid or inaccurate reimbursements.

**Recommendation #1:** In order to improve controls over executive travel expenditures:

- Executive leaders and their assistants should increase the level of documentation attached to travel requests and vouchers so that the business purpose and dates of conferences or meetings are more readily apparent without the need to perform additional research.
- Executive leaders, their assistants, and accounts payable personnel should re-emphasize application and enforcement of institutional policies regarding detailed receipts, proof of payment for reimbursement, and documentation required to receive reimbursement for mileage.

**Management’s response:** Executive leaders, their assistants, and accounts payable personnel concur with both aspects of this recommendation. Improvements in documentation required to adhere to institutional policies are already underway, based on individual feedback received during the audit.

**Implementation date:** March 31, 2013
Lodging expenses for three travel events tested exceeded the maximum rate of $250 per night specified in the institutional travel policy. We determined the cap was not being intentionally ignored; rather, there was a general lack of communication about and resulting awareness of this policy provision since it was first issued in May 2010. In two of the instances, the destinations were to out-of-state cities known to have high cost lodging expenses, and the travelers stayed in the conference hotels, which may have saved intra-city travel expenses incurred by staying at another hotel in the vicinity. In the third instance, the destination was within Texas, but state contracted lodging rates were not available during the required dates of travel.

**Recommendation # 2:** The Director of Payroll Services, who is also responsible for overseeing the travel payment function, should communicate a reminder about the $250/night lodging cap to key employees institution-wide, followed by enforcement of the limit. Alternately the President, in consultation with the Executive Cabinet, should consider revising the institutional travel policy to allow for limited approval by designated senior leaders for travelers to occasionally exceed the $250 lodging rate per night for a valid, documented business reason. If the institutional travel policy is changed to allow for limited exceptions, the Director of Payroll Services should also revise processes and forms, such as the request for travel authorization (RTA) form, to include a place to document approval of exceptions.

**Management’s response:** On December 13, 2012, the Accounts Payable Supervisor, on behalf of the Director of Payroll Services, communicated a reminder about the $250/night lodging cap to key employees institution-wide. The President supports the recommendation to consult with the Executive Cabinet to consider revising the institutional travel policy to allow for limited approval by designated senior leaders for travelers to occasionally exceed the $250 lodging rate per night for a valid, documented business reason. If the institutional travel policy is changed to allow for limited exceptions, the Director of Payroll Services will revise processes and forms to include a place to document approval of exceptions.

**Implementation date:** Institution-wide communication about policy: December 13, 2012 (implemented); consideration of policy and corresponding processes revisions: April 30, 2013

We determined reimbursements for meals were incurred for valid business purposes, and executives normally submit detailed receipts to support reimbursement for these business meals. The predominance of travel vouchers and reimbursement requests tested were accompanied by detailed receipts. However, for fifteen meals tested, executives submitted only credit card or itemized hotel bills to support the reimbursements, rather than detailed receipts.

Institutional Handbook of Operating Procedures (IHOP) 03.01, Travel Policy, requires that detailed receipts accompany all reimbursement requests for meals while traveling on university business. Purchasing department procedures specific to reimbursement requests for meals, which have recently been elevated to IHOP 03.38, Entertainment Policy, require proof of payment, specifically defined to include a detailed itemized restaurant receipt. Without detailed receipts, there is not a visible prompt for executives or their assistants to mark out non-reimbursable expenses or personal meals for any accompanying guests that are not traveling on
university business. There is also the risk that non-food items sold by restaurants will be charged to a credit card and go unnoticed without itemized receipts. As a result, the institution is at risk of inadvertently reimbursing unallowable or personal expenses that were not intended to be reimbursed.

It is important to note this issue is a repeat finding across several engagements, noted in audit reports we issued between April and November of 2012. However, the scope of this current engagement is September 2011 to August 2012, meaning that there was only about a four month period, from May to August 2012, for employees to improve retention and submission of detailed meal receipts, and for accounting personnel to reinforce the requirement. Because of the repeat nature of this issue, however, we determined it was important to meet with the Director of Payroll Services, who is the policy sponsor for institutional travel and entertainment guidance, to ensure accounting and financial leaders are committed to the principle of requiring detailed receipts. An alternate approach would be to lower expectations for the level of documentation to require only credit card receipts, hotel bills, or detailed receipts solely upon request. The Director of Payroll Services assured us that senior leadership sees value in the level of accountability and cost control that results from requiring detailed meal receipts, and that executive leaders and all employees will be expected to improve compliance with this policy. We concur that requiring detailed receipts is an accountable practice that aligns with management’s goals to contain travel and entertainment expenses. As a result, we recognize the importance of issuing the associated recommendation in a manner that supports management’s continued interest in promoting and reinforcing the policy, as opposed to a manner that reduces expectations by eliminating the requirement.

**Recommendation # 3:** To improve controls over travel and entertainment expense processing, executive leaders should ensure they obtain and submit detailed meal receipts to support travel vouchers and reimbursement requests, to include detailed room service and hotel restaurant receipts to accompany itemized hotel bills. Additionally, administrative staff and accounting personnel should reinforce the policy by increasing review of documentation that accompanies requests for meal reimbursements and communicating expectations when detailed receipts are not submitted.

**Management’s response:** Executive leaders, administrative staff, and accounting personnel agree with the recommendation, and will work together to improve adherence to institutional policies that require detailed meal receipts.

**Implementation date:** March 31, 2013

During both travel and entertainment testing, we noted several instances of lack of proper authorization or approval. We determined the instances were unintentional oversights, due to either human error or lack of awareness of the applicable policy or procedure. Several of the instances were minor issues whereby the preparers of travel vouchers missed checking a box intended to highlight the fact that the traveler was requesting approval in advance to incur lodging expenses in excess of the standard state rates. Another minor issue noted was the fact
that one executive, who had a standing travel authorization in place for the entire fiscal year, slightly exceeded the pre-authorized annual limit by the end of the year. Additionally, we noted:

- One entertainment business dinner reimbursement whereby a Medical Service, Research, and Development Plan (MSRDP) account was used without the required approval of the MSRDP budget authority
- One entertainment business dinner reimbursement that did not include the required approval of an employee at the next level, which in this case would be the President
- Two travel voucher reimbursements, funded in part with sponsored project funds, that did not have the required approval of the Post-Awards Finance Administrator, a requirement for all travel funded by external sponsors

**Recommendation # 4:** To improve controls over executive travel and entertainment expenditures:

- Key support staff for each executive leader should meet with the Director of Internal Audit to review the details of the transactions that had authorization and approval exceptions, in an effort to prevent future reimbursement submission oversights specific to that executive.
- The Purchasing Manager and the Accounts Payable Supervisor should meet with the Director of Internal Audit to review the details of the transactions that had authorization and approval exceptions, in an effort to highlight areas where additional reimbursement processing oversight may be required.
- The Senior Accountant, Post-Awards, who now performs the approval function for all travel funded by external sponsors, should meet with the Director of Internal Audit to review the details of the two travel vouchers that were not routed to the Office of Post-Award Administration for approval. Additionally, the Senior Accountant, Post-Awards, should review the wording of the sponsored project expenditure review provision in the Research Administration Policy to ensure it aligns with senior leadership's expectations and comprehensively describes the documents that require Post-Awards approval. Once this policy is reviewed and revised as necessary, the Senior Accountant, Post-Awards, should determine the most appropriate method to remind all institutional employees who incur sponsored project expenses about the Office of Post-Award approval requirement, and then implement the resulting communication plan.

**Management’s response:** Key support staff for each executive leader, and the Purchasing Manager, Accounts Payable Supervisor, and Senior Accountant, Post-Awards all concur with the recommendation. All met with the Director of Internal Audit toward the conclusion of the audit to review the details of transactions that had authorization and approval exceptions.

**Implementation date:** Meetings with key support staff, Purchasing Manager, Accounts Payable Supervisor, and Senior Accountant, Post-Awards to review details of exceptions: February 25, 2013 (implemented); Review and revision, as necessary, of Research Administration Policy, and resulting communication about the Policy: April 30, 2013.
Review for Other Reimbursements or Payments

We compared the terms of the executive leaders’ appointment letters to institutional payroll records. The amounts recorded in the institution’s payroll system agree with the terms of the appointment letters, without exception. Thus, the payroll system was not used in FY 2012 as a mechanism to pay for executives’ travel, entertainment, or other expenses beyond the all-inclusive base salary approved by the UTHSCT President.

We queried vendor transactions for the executives and their spouses, or similar related individuals. We included resulting entertainment transactions in the testing universe, reported in the travel and entertainment section above. We did not identify any travel expenses incurred by the executives’ spouses or similar related individuals that were paid by UTHSCT.

Conclusion

In our opinion, travel and entertainment expenses paid by the institution on behalf of the executive vice president and four vice presidents were appropriate and predominantly in compliance with applicable laws, UT System, and the University of Texas Health Science Center at Tyler policies and procedures.

Kris I. Kavasch, Director of Internal Audit
Summary of Significant Findings

According to The University of Texas System, a significant finding is one that may be material to the operation, financial reporting, or legal compliance of the university if corrective action has not been fully implemented. This would include an internal control weakness that does not reduce the risk of irregularity, illegal act, error, inefficiency, waste, ineffectiveness, or conflict of interest to a reasonably low level.

In view of the above requirements, the Executive Travel and Entertainment Audit for the fiscal year ended August 31, 2012 had no significant findings.