



Office of Internal Audit

December 6, 2013

Dr. Kirk A. Calhoun, M.D.
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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 fiscal year 2014 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, 2012 through August 31, 2013.

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
Executive Director of Internal Audit

Enclosure

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December 6, 2013**

**UT HEALTH NORTHEAST
OFFICE OF INTERNAL AUDIT
11937 US HIGHWAY 271
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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 UT Health Northeast, we identified the leadership team of one executive vice president, three vice presidents, two associate vice presidents, two executive directors, and two department chairs as the most appropriate group to incorporate into the second year of this engagement.

In our opinion, travel and entertainment expenses paid by the institution on behalf of these executive leaders during fiscal year 2013 were appropriate and predominantly in compliance with applicable laws, UT System, and UT Health Northeast's policies and procedures.

As an institution, executive leaders have progressed in their awareness of and compliance with institutional policies and procedures governing travel and entertainment expenditures over the past two years. 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
- Adherence to institutional daily lodging rate and meal tip caps
- Retention and submission of detailed receipts to support business meal reimbursements

UT Health Northeast 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.

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Since fiscal year 2007, the UT Health Northeast Office of Internal Audit has been conducting 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 second-year engagement was approved by the UT Health Northeast Internal Audit Committee as part of the institution's fiscal year 2014 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 UT Health Northeast 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 the audit began in the first quarter of FY 2014, we determined the appropriate time scope to be September 1, 2012 through August 31, 2013. To determine the executives in scope, we performed a risk assessment to conclude that the following executive leaders were most appropriately incorporated into the second year of this engagement, as listed in the organizational chart that was in effect at August 31, 2013:

- Executive Vice President and Chief of Staff
- Vice President, Chief Business and Financial Officer
- Vice President, Research and Graduate Studies
- Vice President, Clinical and Academic Affairs and Physician-in-Chief
- Associate Vice President, Chief Information Officer
- Associate Vice President, Chief Human Resources Officer
- Executive Director, East Texas Consortium
- Executive Director, Program Planning
- Chairman, Department of Occupational and Environmental Medicine
- Chairman, Department of Family Medicine

Within this population scope, we designed the sample selection this second year to apply a lesser, follow-up level of testing for the executive vice president and the three vice presidents who were included in the first year's audit, in order to focus the engagement more intently on the larger population of executives newly included in the audit scope this year.

After applying the limiting follow-up parameter to the four executives audited in the prior year, we judgmentally selected transactions for testing 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 executives in scope
- The volume of trips and transactions for each executive relative to the total volume of trips and transaction for all executives in scope

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- Higher cost trips
- Out-of-state trips
- Foreign trips
- Uncommon transactions
- Both reimbursed expenditures and expenditures paid directly on behalf of the executives
- A variety of fund and department combinations, including restricted endowment funds

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
- 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 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 and reimbursement documentation and made inquiries to determine whether the selected transactions were:

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

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During our testing we noted that UT Health Northeast 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. As an institution, executive leaders have progressed in their awareness of and compliance with institutional policies and procedures governing travel and entertainment expenditures over the past two years. We identified fewer exceptions to compliance with institutional policies and procedures than in the prior year's engagement. The following aspects of this overall affirmative outcome warrant further discussion:

We noted three 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 from department personnel. However, as time passes, the institution runs the risk that supplemental information required to corroborate the business purpose and dates of meetings and conferences may no longer be readily available or accessible.

Recommendation # 1: 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.

Management's response: Executive leaders and their assistants concur with this recommendation. Departments specifically affected by this recommendation have process improvements underway to submit more information and documentation with travel requests and vouchers.

Implementation date: December 31, 2013

Lodging expenses for two travel events tested exceeded the maximum rate of \$250 per day specified in the institutional travel policy. More specifically, two hotel days were incurred in excess of the \$250 per day rate, one day at \$259, and a second day at \$275. In both instances, the destinations were to out-of-state cities known to have high cost lodging expenses. We determined the cap was not being intentionally ignored; rather, there remains an occasional lack of awareness of the policy and a recently implemented procedure for requesting senior leadership approval for limited exceptions to the cap.

Additionally, for eleven meals tested, employees paid tips and were reimbursed for the tips at rates greater than the 18% maximum amount specified in both the institution's travel policy

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guide and entertainment policy. Specifically, the tips paid and reimbursed ranged from 18.5% - 24.5%. The 24.5% tip was incurred when the restaurant had already included a 15% tip due to the size of the group, and the executive added an additional amount. Again, we determined the cap was not being intentionally ignored; rather, there is a general lack of awareness of the applicable provision contained in the reinstated travel policy guide and the new institutional entertainment policy, both issued in fiscal year 2013.

Recommendation # 2: The Director of Payroll Services, who is also responsible for overseeing the accounts payable function, should communicate reminders about the 18% maximum tip amount and the \$250 per day lodging cap to key employees institution-wide, followed by increased monitoring by both administrative and accounting staff when processing reimbursements. The communication should include information about the process for obtaining prior approval from senior leadership for limited exceptions to the lodging cap policy involving valid, documented business reasons.

Management's response: The Director of Payroll Services concurs with this recommendation. She will ensure that Accounts Payable leadership communicates a reminder to key employees about institutional policies governing these two travel caps, followed by increased monitoring of these limits when processing reimbursements.

Implementation date: December 31, 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 eleven 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. Additionally, IHOP 03.38, *Entertainment Policy*, requires documentation that includes 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 an itemized receipt. As a result, the institution is at risk of inadvertently reimbursing unallowable or personal expenses that were not intended to be reimbursed.

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

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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: December 31, 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 as a mechanism to pay for executives' travel, entertainment, or other expenses beyond the all-inclusive base salary approved by the President.

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

In our opinion, travel and entertainment expenses paid by the institution on behalf of executive leaders included in the audit scope are appropriate and predominantly in compliance with applicable laws, UT System, and UT Health Northeast policies and procedures.



Kris I. Kavasch, Executive Director of Internal Audit

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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 & Entertainment Audit for the fiscal year ended August 31, 2013 had no significant findings.