February 24, 2015

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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 2015 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, 2013 through August 31, 2014. 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,

Kris I. Kavasch
Executive Director of Internal Audit

Enclosure

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Executive Travel & Entertainment Audit

February 24, 2015
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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. This year our audit covered travel and entertainment expenditures for thirteen members of the UT Health Northeast executive leadership team. This included all Associate Vice Presidents, Vice Presidents, Senior Vice Presidents 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 2014 were appropriate and substantially in compliance with applicable laws, UT System, and UT Health Northeast’s policies and procedures. UT Health Northeast executive leaders included in this audit incurred no foreign travel expenses during the year.

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 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 third-year engagement was approved by the UT Health Northeast Internal Audit Committee as part of the institution’s fiscal year 2015 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

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 2014 (September 1, 2013 through August 31, 2014). To determine which executives to include in this audit, we considered the institutional hierarchy, executives' span of authority, and prior audits performed. For FY 2015, we included the following thirteen executives in the audit:

- Executive Vice President Institutional Operations and Chief of Staff
- Senior Vice President, Chief Financial and Business Officer
- Senior Vice President, Research and Graduate Studies
- Senior Vice President, Clinical and Academic Affairs
- Vice President, Chief Medical Officer/Physician-in-Chief
- Vice President & Chief Administrative Officer, Hospital and Clinics
- Vice President, Patient Centered Care & Chief Nursing Officer
- Vice President, Human Resources, Chief Human Resources Officer
- Associate Vice President, Chief Legal Officer
- Associate Vice President, Institutional Advancement, Chief Development Officer
- Associate Vice President, Planning and Public Policy
- Associate Vice President, Information Technology, Chief Information Officer
- Associate Vice President, Medical Affairs, University Physician Associates

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**

We determined that travel and entertainment expenses paid by the institution during FY 2014 on behalf of executive leaders were appropriate and substantially in compliance with applicable laws, UT System, and UT Health Northeast policies and procedures.

**Travel and Entertainment Expenses**

Travel and other reimbursements made to the thirteen executives whose travel and entertainment expenses were reviewed totaled $68,323 combined for FY 2014. 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 35 travel and entertainment transactions totaling $27,759 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 found that generally for all thirteen executives, transactions were for a valid business purpose, allowable, authorized, timely, mathematically correct, and adequately supported. Although all expenses tested were appropriate business expenses, we identified some minor supporting documentation deficiencies within vouchers and other documentation. On February 16, 2015, Internal Audit provided training to the individuals who were responsible to avoid future reoccurrence of similar deficiencies. In addition, certain deficiencies identified within this audit will be included in the FY 2015 Internal Control Training presentation prepared annually by Internal Audit in collaboration with the institution’s Chief Financial and Business Officer, Accounts Payable and Purchasing management. This Internal Control Training is provided to institutional budget authorities and key employees each year to improve processes and controls over expenditures.

**Review for Other Reimbursements or Payments**

We compared the terms of the thirteen 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 and properly executed personnel action forms. As a result, we determined that the payroll system was not used as a mechanism to pay for executives’ travel, entertainment, or other expenses beyond the all-inclusive base salary that was properly approved by the President or appropriate executive leaders. During our recalculation of salaries, we found one executive was underpaid by $384.92 due to an inadvertent error made by Payroll staff when applying a salary change that went into effect during the year. After being notified about the error, Payroll corrected the error on the employee’s February 3, 2015 paycheck. There were no other issues identified concerning payroll transactions.

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 UT Health Northeast executive leaders in FY 2014 were appropriate and substantially in compliance with applicable laws, UT System, and UT Health Northeast policies and procedures.

Kris I. Kavasch, Executive Director of Internal Audit
Summary of Priority Findings

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 have been established in three categories: namely, Organizational Controls, Quantitative Risks, and Qualitative Risks”.

In view of the above requirements, the FY 2015 Executive Travel and Entertainment Audit had no priority findings.