



November 28, 2012

Dr. Kirk A. Calhoun, President  
The University of Texas Health Science Center at Tyler  
11937 U. S. Hwy 271  
Tyler, TX 75708

Dear Dr. Calhoun:

As part of our FY 2013 Audit Plan, we completed the Presidential Travel and Entertainment Audit. This audit was conducted to comply with UT System Board of Regents' Rule 20205. 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 for expenses for the maintenance of university residences. Section 8 of this Rule requires that each institution's internal audit office perform an audit of these expenses within ninety days after the end of each fiscal year.

The objective of the audit was to determine if travel and entertainment expenses paid by the institution on behalf of the President and his spouse are appropriate and in compliance with Regents' Rule 20205 and 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,

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

Kris I. Kavasch  
Director of Internal Audit

Enclosure

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**The University of Texas Health Science Center at Tyler  
Presidential Travel and Entertainment Audit  
FYE August 31, 2012**



**November 28, 2012**

**THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT TYLER  
OFFICE OF INTERNAL AUDIT  
11937 US HIGHWAY 271  
TYLER, TX 75708**

The University of Texas Health Science Center at Tyler  
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## **Audit Report**

### ***Executive Summary***

Section 8 of Board of Regents' Rule 20205, *Expenditures for Travel and Entertainment by Chief Administrators and for the Maintenance of University Residences*, requires that each institution's internal audit office perform an audit of the travel and entertainment expenses, and expenses for the maintenance of university residences, for which the President or his spouse has been reimbursed, or that have been paid directly to a vendor on the President's or his spouse's behalf.

In our opinion, travel and entertainment expenses paid by the institution on behalf of the President and his spouse are appropriate and are predominantly in compliance with Regents' Rule 20205 and applicable laws, UT System, and the University of Texas Health Science Center at Tyler policies and procedures.

To sustain appropriateness of presidential and spousal travel and entertainment expenses and compliance with Regents' Rule 20205, the institution has opportunities to improve controls in the following areas, with which it is substantially, but not consistently, compliant:

- Accuracy and timely filing of quarterly presidential and spousal reports on travel and entertainment expenses
- Retention and submission of detailed receipts to support business meal reimbursements, and corresponding use of this detailed information to eliminate tips for reimbursement in the same ratios as non-reimbursable meals and sales taxes
- Communication about, and documentation of, an appropriate business purpose when the President's spouse travels on official university business in her UT System-appointed role as a Special Assistant to the President

Recent revisions to Regents' Rule 20205, requiring the Executive Vice Chancellor for Health Affairs to annually certify quarterly presidential and spousal travel and entertainment reports to the Chancellor and the Board of Regents, heighten the importance of continuing diligent controls over travel and entertainment expenses and implementing the suggested recommendations to meet the Rule's recently changed higher reporting standards.

Due to communication and clerical errors, the President was inadvertently over-reimbursed for tips for several business meals, offset by an allowable business rental car expense for which he was never reimbursed. In a similar manner, the President's spouse was reimbursed in error for meals for one trip that was not intended to be for a business purpose, and the institution directly paid the plane fare and booking fee for this same trip. As a result, we recommended, and the President wholeheartedly concurred, that the President refund \$333.64 to UTHSCT, which he did on November 28, 2012.

Neither the President nor his spouse incurred any foreign travel expenses during the year.

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Neither UTHSCT nor UT System owns a residence occupied by the institution's President or his spouse. Also, we found no indication that any other payment mechanism, such as the payroll system or payments made to related parties, were used to pay for the President's or his spouse's travel, entertainment, or other expenses, such as housing, beyond the all-inclusive salary approved by UT System for the President.

***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 for expenses for the maintenance of university residences.

Section 8 of Rule 20205 requires that each institution's internal audit office perform an audit of the travel and entertainment expenses, and expenses for the maintenance of university residences, for which the president or his spouse has been reimbursed, or that have been paid directly to a vendor on the president's or his spouse's behalf. The audit must be performed within ninety days after the end of each fiscal year. 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 if travel and entertainment expenses paid by the institution on behalf of the President and his spouse are appropriate and in compliance with Regents' Rule 20205 and applicable laws, UT System, and the University of Texas Health Science Center at Tyler policies and procedures.

***Audit Scope and Methodology***

The scope of the audit was September 1, 2011 through August 31, 2012.

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

- Reviewed and updated documentation of institutional and departmental business processes regarding 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, MSRDP bylaws, and state regulations

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- Queried vendor transactions for the President, his spouse, and similar or related names 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; in compliance with Regents’ Rule 20205 and applicable laws, policies and procedures; and properly included and reported in the quarterly presidential and spousal reports on travel and entertainment expenses, as required by Regents’ Rule 20205
- Obtained and reviewed the appointment letter that designates the President’s spouse as a Special Assistant to the President, in conformance with UTS 120, *Spousal Travel Policy*
- Obtained and reviewed the President’s appointment letter and compared terms of his appointment 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 salary approved by UT System
- Reviewed quarterly presidential and spousal reports on travel and entertainment expenses to determine if these were filed with the Executive Vice Chancellor for Health Affairs by the due dates outlined in Regents’ Rule 20205
- Obtained a representation letter from management in connection with the audit objective and scope

Audit procedures and expenditure testing incorporated transactions from the following accounts:

<b>Fund</b>	<b>Dept.</b>	<b>Description</b>
20000	1003	President’s Travel & Entertainment, MSRDP
18198	1000	President’s Designated
20000	1101	University Physician Associates Administration, MSRDP

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***

UTHSCT expended approximately \$28,400 for the President’s and his spouse’s in-state and out-of-state business travel in FY 2012. The large majority of in-state trips were to Austin to conduct UT System, State of Texas, or various board or association business on behalf of the institution. We identified only five out-of-state trips during the year for non-sponsored travel. Neither the President nor his spouse incurred foreign travel expenses during the year.

The President’s spouse is designated as a Special Assistant to the President, functioning as an official representative of UTHSCT, as guided by UTS 120, *Spousal Travel Policy*. UTS 120

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requires that all expenditures for the President's spouse must be for a business purpose of the institution, and must comply with all laws and policies of both the institution and UT System. The Special Assistant is entitled to reimbursement or direct payment of travel, meals, and incidental expenses when functioning as an official representative of the institution and performing duties consistent with those described in UTS 120. During FY 2012, the Special Assistant made only two trips paid by the institution.

We tested a sample of approximately \$12,800, or about 45% of the total travel expenditures incurred by the President and his spouse in FY 2012. We focused our sample selection to ensure inclusion of all five out-of-state trips; higher cost trips; trips with less common expenditure types, such as for vehicle mileage; some in-state trips outside of Austin; and both trips taken by the Special Assistant during the year.

We also tested a sample of entertainment and potentially similar expenditures for attributes similar to those noted above for travel expenditures. Entertainment testing requires a different approach from travel testing, since unlike travel account codes that are more defined, entertainment expenditures can be correctly classified in one of a number of multipurpose account codes. We noted that according to the quarterly reports, the President or his spouse attended only two entertainment events, totaling \$282, at the reportable threshold of \$100 or more and ten or less attendees. We selected both of these transactions for the sample, and then chose a variety of transaction types and amounts to determine if there were any additional reportable entertainment events in the total sample of approximately \$18,100. We found no additional entertainment transactions reportable to UT System under the guidelines of Regents' Rule 20205.

We reviewed financial transactions, reimbursement documentation, and reports; and made inquiries to determine whether each of the expenditures were:

- properly approved;
- adequately supported;
- mathematically accurate;
- for an appropriate business purpose;
- in compliance with Regents' Rule 20205 and applicable laws, policies and procedures; and
- properly included and reported in the quarterly presidential and spousal reports on travel and entertainment expenses, as required by Regents' Rule 20205

We determined travel and entertainment expenditures reimbursed to the President and his spouse, as well as similar expenditures made on their behalf, substantially met these criteria. The following aspects of this overall affirmative outcome warrant further discussion:

We determined reimbursements for business meals were incurred during trips taken for valid business purposes, and the President routinely submits detailed receipts to support reimbursement for these business meals. However, for eight meals tested, the President submitted only credit card or itemized hotel bills to support the reimbursements, rather than detailed receipts. This circumstance occurred most commonly for room service and hotel

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restaurant meals, representing six of the eight total instances. Institutional Handbook of Operating Procedures (IHOP) 03.01, *Travel Policy*, requires detailed receipts accompany all reimbursement requests for meals while traveling on university business. Without detailed receipts, there is not a visible prompt for the President or the Senior Executive Assistant to mark out non-reimbursable expenses or personal meals for any accompanying guests that are not traveling on university business. As a result, the institution is at risk of inadvertently reimbursing unallowable or personal expenses that were not intended to be reimbursed.

Additionally, although the predominance of expenses for business meals were properly accounted for, tips corresponding to the personal portions of nine meals incurred during business travel were not properly allocated, even though the meal expenses and corresponding sales taxes were correctly eliminated from the reimbursement vouchers. As a result, the President was over-reimbursed approximately \$42.38.

Finally, due to a communication and corresponding clerical error, UTHSCT inadvertently reimbursed meals and directly paid a plane fare and a travel booking fee for one trip made by the President's spouse, for a total of \$420.70. This particular trip was not intended to be one during which President's spouse would perform duties in her appointed role guided by UTS 120, *Spousal Travel Policy*, as a Special Assistant to the President. The personal nature of this trip was inadvertently not communicated among the President and employees who processed and approved the airfare invoice and travel vouchers, resulting in an errant payment by the institution for this trip.

As an offset to the inadvertent over-reimbursements for meal tips and the spousal trip, we identified one allowable business rental car expense for \$129.44 for which the President was mistakenly never reimbursed, due to a clerical processing error.

**Recommendation #1:** To improve controls over travel and entertainment expense processing, as well as to properly account for the net over-reimbursed amount to the President and his spouse, we recommend the following:

- The President should re-emphasize retention and submission of detailed meal receipts to support travel vouchers and reimbursement requests, especially in the area of detailed room service and hotel restaurant receipts to accompany itemized hotel bills.
- The President, Vice President, Chief Business and Financial Officer, and the Senior Executive Assistant should work together to ensure the personal portion of tips are not reimbursed, in a manner similar to the process that has routinely been applied to the personal portion of the corresponding meals and sales taxes.
- The Senior Executive Assistant, in collaboration with the President and the Vice President, Chief Business and Financial Officer, should prepare an attestation form that corresponds to the categories of duties described in UTS 120, *Spousal Travel Policy*, for official functions performed as a Special Assistant to the President. To avoid future miscommunications, the President should sign this attestation to accompany each travel voucher processed by the Senior Executive Assistant for the President's spouse. The Vice President, Chief Business and Financial Officer should review each spousal travel

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voucher to ensure a signed attestation accompanies each voucher prior to signing for reimbursement to the Special Assistant to the President. Additionally, prior to making airline reservations for the President's spouse, the Senior Executive Assistant should ascertain that the trip is for an official business purpose before accessing the contracted state travel rates and obligating the institution to pay the fare via the corporate travel card account.

- The President should reimburse the institution \$333.64, calculated as follows:

<b>Description</b>	<b>Amount</b>
Over-reimbursed tips for nine meals	\$ 42.38
Plane fare & reservation fee for one spousal trip	297.00
Meals for above spousal trip	123.70
Business rental car expense never reimbursed	(129.44)
<b>Total</b>	<b>\$ 333.64</b>

**Management's response:** The President, Vice President, Chief Business and Financial Officer, and the Senior Executive Assistant concur with all segments of the recommendation. The President immediately reimbursed the institution \$333.64 upon being informed about the inadvertent overpayment error at the conclusion of this audit.

**Implementation dates:** November 28, 2012 - reimbursement of \$333.64 to UTHSCT; November 30, 2012 – detailed meal receipts and allocation of tips; December 31, 2012 – implementation of spousal travel attestation form and corresponding airfare reservation process

Overall, the travel and entertainment expenditures we tested were properly included and reported in the quarterly presidential and spousal reports on travel and entertainment expenses, as required by Regents' Rule 20205. However, there were several instances in which travel expenses and associated descriptive information were not accurately reported in the quarterly reports. The inaccuracies appear to be inadvertent, with no intent to report lower travel expenditures to UT System than actually occurred. In fact, we noted approximately \$753 more in travel expenses included in the quarterly reports than expended. The nature of the errors varied, including omission of an airfare credit; reporting expenses that ultimately were not reimbursed; reporting based on a voucher as originally submitted that later had minor corrections made by accounts payable personnel; and an instance of inadvertently listing a business purpose for one trip that actually corresponded to a different trip.

Accuracy of the quarterly reports has become increasingly more important, given a recent change to Regents' Rule 20205 that requires the Executive Vice Chancellor for Health Affairs annually certify to the Chancellor and the Board of Regents that he has reviewed the reports.

**Recommendation # 2:** The President should collaborate with the Senior Executive Assistant to ensure the accuracy of the quarterly presidential and spousal reports on travel and entertainment

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expenses submitted to UT System, to include increased cross checking against the financial accounting records in order to report amounts as finally recorded rather than as initially booked, submitted, or processed.

**Management's response:** The President and the Senior Executive Assistant affirm the importance of accurate reporting to UT System and concur with the recommendation. The Senior Executive Assistant recently collaborated with the Accounts Payable Supervisor to increase visibility of airfare invoice number information in the general ledger descriptions to facilitate tracking of airfare credits. The Senior Executive Assistant will enhance her cross checking process against the financial accounting records in order to accurately report information in the quarterly reports as finally recorded rather than as initially booked, submitted, or processed.

**Implementation date:** January 31, 2013, to coincide with the due date of the first FY 2013 quarterly report

***Quarterly Presidential and Spousal Reports on Travel and Entertainment Expenses***

Regents' Rule 20205 requires that UTHSCT file presidential and spousal travel and entertainment expense reports with the Executive Vice Chancellor for Health Affairs within sixty days of the end of each fiscal quarter.

The FY 2012 quarterly presidential and spousal reports on travel and entertainment expenses were not consistently filed with UT System by the applicable due dates. Although two reports were submitted on time, one report was submitted three days late, and another report was submitted seven days late. This is a repeat finding from the prior year, in which two of the four quarterly reports were also submitted past the due dates.

**Recommendation # 3:** The President, in collaboration with the Senior Executive Assistant, should ensure quarterly presidential and spousal travel and entertainment reports are filed with UT System by the due dates required by UT System Board of Regents' Rule 20205.

**Management's response:** The President and the Senior Executive Assistant affirm the importance of timely report filings and concur with the recommendation. The Senior Executive Assistant will prioritize timely report filings and set a goal to complete segments of the report by month to reduce the time needed to finalize the reports at the end of each quarter.

**Implementation date:** January 31, 2013, to coincide with the due date of the first FY 2013 quarterly report

***Expenses for the Maintenance of University Residences***

Neither UTHSCT nor UT System owns a residence occupied by the institution's President or his spouse. As such, no expenses were reimbursed to the President or his spouse, or paid to a vendor

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on their behalf, for the furnishing, maintenance, or repair of a state-owned residence or its grounds.

***Review for Other Reimbursements or Payments***

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

The President's spouse is designated as a Special Assistant to the President, functioning as an official representative of UTHSCT, as guided by UTS 120, *Spousal Travel Policy*. We verified the Special Assistant serves without compensation, as designated in her appointment letter.

We queried vendor transactions for the President, his spouse, and similar or related names. No payments were made to the President, his spouse, to known related parties, or to individuals with similar last names, for travel or entertainment expenses.

***Conclusion***

In our opinion, travel, entertainment, and housing expenses paid by the institution on behalf of the President and his spouse are appropriate and predominantly in compliance with Regents' Rule 20205 and applicable laws, UT System, and the University of Texas Health Science Center at Tyler policies and procedures.



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Kris I. Kavasch, 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 Presidential Travel and Entertainment Audit for the fiscal year ended August 31, 2012 had no significant findings.