May 2, 2014

Dr. W. David Watts, President
University of Texas of the Permian Basin
4901 East University Boulevard
Odessa, Texas 79762

Dr. Watts:

We have completed the Executive Travel and Entertainment Expense audit as included in our FY 2014 annual audit plan. This audit was conducted in accordance with guidelines set forth in UTS129 and the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, and covered the period of September 1, 2012 through August 31, 2013.

The purpose of our audit was to determine if the appropriate UT System and UT Permian Basin (UTPB) policies and procedures were followed in the expenditure and reimbursement of travel and entertainment funds by those University executives that report directly to the President. Overall, we found the majority of the expense transactions tested conformed to UT System and UTPB policies and procedures. The audit of the executive travel and entertainment expenses did result in the discovery of some exceptions, which are detailed in the attached report along with suggestions for improvement.

We wish to express our appreciation to management and staff for the courtesy and cooperation extended to us during the audit.

Sincerely,

Glenn Spencer
Director of Internal Audit

cc: Dr. William Fannin, Provost and Vice President for Academic Affairs
Dale Cassidy, Vice President for Business Affairs
Lee Anna Good, Executive Director of Development
Steve Alcina, Director of Athletics
Rey Lascano, Director of Continuing Education
Travis Woodward, Director of Communication and Special Projects
Mike Peppers, Chief Audit Executive, UT System Audit Office
Eric Polanski, Assistant Director, UT System Audit Office
Dr. Pedro Reyes, Executive Vice Chancellor for Academic Affairs, UT System
Alan Marks, Assist. Vice Chancellor of Academic Affairs, UT System
Ed Osner, Legislative Budget Board
Kate McGrath, Governor’s Office
State Auditor’s Office
Sunset Commission
Executive Travel and Entertainment Expenses
Audit Report

May 2, 2014

The University of Texas of the Permian Basin
Office of Internal Audit
4901 E. University
Odessa, Texas 79762
# Table of Contents

Executive Summary ................................................................................................................. 3

Background .............................................................................................................................. 3

Audit Objectives ....................................................................................................................... 3

Scope and Methodology ......................................................................................................... 4

Audit Results ............................................................................................................................ 4

Conclusion ............................................................................................................................... 6
Executive Summary

We have completed the Executive Travel and Entertainment Expense audit as included in our FY 2014 annual audit plan. This audit was conducted in accordance with guidelines set forth in UTS129 and the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

The purpose of our audit was to determine if the appropriate UT System and UT Permian Basin (UTPB) policies and procedures were followed in the expenditure and reimbursement of travel and entertainment funds by those University executives that report directly to the President.

During the course of our audit we noted exceptions in the following areas:

- Requests for travel, cash advances and reimbursements are not always properly reviewed and approved.
- Some minor personal expenses, that are not allowable under University policy, were paid out of travel advances.
- Adequate supporting documentation was not always on file.
- The limit on meal gratuities was not always followed.

Overall, we found the majority of the expense transactions tested conformed to UT System and UTPB policies and procedures.

Background

In 2006, the UT System Board of Regents approved Rule 20205 “Expenditures for Travel, Entertainment, and Housing by Chief Administrators”, which required annual audits of the travel, entertainment and housing expenses incurred by the Chancellor and institutional Presidents. In 2013, the Chancellor requested that the requirements be expanded to include an audit of the travel and entertainment expenses incurred by each institution’s executives. This audit was performed to fulfill that requirement for UTPB.

Audit Objectives

The purpose of our audit was to determine whether:

- Appropriate policies and procedures of the UT System and UTPB were followed in the expenditure of travel and entertainment funds by UTPB executives.
- Expenditures were for an appropriate business purpose in regard to the mission of UTPB.
- Transactions were processed in a timely manner, were properly approved, and supported by appropriate documentation.
Scope and Methodology

Our audit was conducted in accordance with the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*. We reviewed a sample of travel and entertainment transactions for selected UTPB executives for the period of September 1, 2012 through August 31, 2013. Our audit included the following procedures:

- Gain an understanding of the travel and entertainment expenditure process through interviews.
- Review policies and procedures regarding travel and entertainment expenditures.
- Test travel and entertainment expenditures for required attributes.
- Review allowable and unallowable expenditures that can be charged to the different accounts.

Those UTPB executives selected for inclusion in this audit consisted of the following management personnel which report directly to the President:

- Provost and Vice President for Academic Affairs
- Vice President for Business Affairs
- Director of Athletics
- Director of Communication and Special Projects
- Director of Continuing Education
- Executive Director of Development

Audit Results

Travel Advances/Reimbursements

We found that 11 of 31 (35%) travel related transactions reviewed contained one or more exceptions, of which we noted 19 exceptions in total, summarized as follows:

- 1 instance where the travel was not properly authorized.
- 8 instances of adequate supporting documentation not on file.
- 1 instance where mileage claimed for reimbursement exceeded actual mileage by ten miles.
- 4 instances where various items, totaling $151.55, were purchased for personal use and not directly associated with University travel.
- 5 instances where approval to purchase food for other employees was not obtained with an approved Official Occasion Expense Form as required by UTPB policy.

Some of the exceptions listed above dealt with travel advances in lieu of reimbursements. It was noted that while UTPB policy does require supervisor approval for issuance of a travel advance, in practice this requirement does not extend to those management personnel who have budget...
approval authority. However, it would appear reasonable that travel advances be treated in the same manner as travel reimbursements, in that each would require the approval of a supervisor. In this instance, a travel advance for an executive that reports directly to the President should require the approval of the President, just as in the case with travel reimbursements.

**Entertainment Reimbursements**

We noted that 7 of the 20 (35%) entertainment related expense amounts reviewed contained one or more exceptions, of which we noted 12 exceptions in total, summarized as follows:

- 4 instances where a gratuity was in excess of the authorized limit of 15%.
- 7 instances where the Official Occasion Expense Form was signed by an individual not authorized to do so, was not signed at all, or was not properly completed according to UTPB policy.
- 1 instance where the reimbursement was not made in a timely manner, but was made nine months after the event took place.

**Recommendation:**

- The travel and entertainment expense policies for the university should be reviewed for content and understanding, and, where appropriate, updated to reflect current practice. Employees should be made aware of the applicable requirements, especially in regard to business versus personal expenses, gratuity limits, and in the use of the Official Occasion Expense Form.

- Established policy requiring supervisor approval for issuance of a travel advance be followed for all individuals. In this instance, the President should provide written approval for the issuance of advances to those individuals that report directly to the President.

- The procedures for reviewing submitted reimbursement forms, travel advance reconciliations, and associated receipts should be strengthened within the Financial Services Department as part of the control process over unauthorized reimbursements/advances.

**Management Response:**

Management concurs with the recommendations. Our action plan follows:

- Review travel and entertainment guides and update/clarify as deemed appropriate. For example, the guidance on gratuity rates is outdated and in all likelihood leads to more issues
than it resolves. We will take appropriate steps to ensure that all staff and faculty are made aware of established travel and entertainment policies along with any future revisions.

- Adopt new rules with regard to the approval for travel advances as well as the review of the expenditure documentation that is submitted with the final reconciliation of the advance. We plan to require that the employee’s immediate supervisor must approve all travel advance requests – regardless of the ownership of the account to which the expenses will be charged. We also plan to require that the employee’s immediate supervisor or his/her designee must review and approve all expenditure documentation before final submission to reconcile the advance is turned in.

- Procedures for reviewing travel reimbursement and advance reconciliations may need some strengthening within Financial Services. However, we believe that the changes outlined above, and a period of getting accustomed to how these reviews will take place after the PeopleSoft conversion has taken place are required before we consider what strengthening is indicated. In any event, we will work with staff to ensure that all travel reimbursements/travel advance reconciliations will be reviewed for proper approval, accuracy, adherence to established policies, and inclusion of receipts and other supporting documentation.

Implementation Date:

For the first two bullets above, May 31, 2014. For the third bullet implementation will be completed by August 31, 2014.

Conclusion

Overall, we found the majority of the expense transactions tested conformed to UT System and UTPB policies and procedures. The audit of the executive travel and entertainment expenses did result in the discovery of some exceptions. The policies should be reviewed for content and updated. The importance of following established policies should be communicated to employees.

We appreciate the assistance and access provided to audit personnel during this audit.