September 21, 2015

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

Dear Dr. Watts:

We have completed our audit of Executive Travel and Entertainment Expenses for fiscal year 2014. This audit was conducted in accordance with UTS 129 and the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing, and covered the period of September 1, 2013 through August 31, 2014.

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 a small number of minor exceptions as summarized in the attached report. The total impact of these exceptions was negligible. Based upon the results of our testing, we noted improvement from the prior year audit, and found that, overall, UTPB is complying with UT System and UT Permian Basin policies and procedures in regard to executive travel and entertainment expenses.

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

Sincerely,

Glenn Spencer
Director of Internal Audit – UT Permian Basin
UT System Audit Office

cc: Dr. Daniel Heimmermann, Provost and Vice President for Academic Affairs
    Mark McGurk, CPA, Vice President for Business Affairs
    Dr. Steve Aicinena, Director of Athletics
    Lee Anna Good, Executive Director of Development
    Rey Lascano, Director of Continuing Education
    Travis Woodward, Director of Communication and Special Projects
    J. Michael Peppers, Chief Audit Executive, UT System Audit Office
Executive Travel and Entertainment Expense
Audit Report

September 2015

Office of Internal Audit
4901 E. University
Odessa, Texas 79762
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Executive Summary

We have completed the Executive Travel and Entertainment Expense audit as included in our FY 2015 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 minor exceptions in the following areas:

- The limit on meal gratuities was not always followed.
- Detailed receipts are not always provided on credit card transactions.
- Not all reimbursements were processed in a timely manner.

The total impact of these exceptions was negligible. Based upon the results of our testing, we noted improvement from the prior year audit, and found that, overall, the University is complying with UT System and UT Permian Basin policies and procedures in regard to executive travel and entertainment expenses.

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 annual 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, 2013 through August 31, 2014. Our audit included the following procedures:

- Gained an understanding of the travel and entertainment expenditure process through interviews.
- Reviewed policies and procedures regarding travel and entertainment expenditures.
- Tested travel and entertainment expenditures for required attributes.
- Reviewed 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 for Development  
Interim Director of Information Resources Department

Current Year Audit Results

We found that out of 66 transactions reviewed (44 travel and 22 entertainment), 12 transactions (18%) contained one or more exceptions, of which we noted 13 exceptions in total, summarized as follows:

- 4 instances where a gratuity was in excess of the authorized limit of 15% before taxes when using institutional funds, per UTPB policy.
- 1 instance of a reimbursement being slightly over-calculated.
- 5 instances where no detailed receipts were provided, only credit card receipts indicating total amount paid.
- 3 instances where reimbursements were not processed timely, between 2-8 months after the transaction.

The total dollar impact of these items was negligible, and calls for no reimbursement to UTPB. Based upon the results of our testing, we noted improvement from the prior year audit, and found that,
overall, the University is complying with UT System and UT Permian Basin policies and procedures in regard to executive travel and entertainment expenses.

We did have several recommendations to help strengthen controls and procedures, as listed below:

**Recommendations:**

- All individuals that incur meal expenses should be made aware of the UTPB policy on gratuity limits. The current policy limits gratuities to 15% before taxes when using institutional funds.

- When any type of credit cards are used and only total amounts are indicated on the receipt, itemized receipts showing the detail of the transaction should be obtained in addition to the credit card receipt. Without such detail, there is no method to verify items purchased and the total amount paid before taxes.

- Reimbursement requests should be submitted and processed in a timely manner, preferably within 30 days after the transaction.

**Management Response:**

Management concurs with the recommendations. Our action plan follows:

- Review travel and entertainment guides and update/clarify as deemed appropriate.

- Send an update email to all faculty and staff to remind them of institutional travel policies. The update will specifically address the recommendations and provide a link to the University travel policies.

**Implementation Date:**

September 21, 2015

**Status of Prior Year Findings and Recommendations**

We followed-up on the recommendations from the previous year’s audit report. Management has not fully implemented two of the recommendations. See *Appendix A* for detailed results. For updated management responses and implementation dates, please refer to *Current Year Audit Results*. 
Conclusion

While we noted a small number of minor exceptions, we found improvement from the prior year audit and determined that, overall, UTPB is complying with UT System and UTPB policies and procedures in regard to executive travel and entertainment expenses.

APPENDIX A

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

<table>
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<tr>
<th>No.</th>
<th>Finding</th>
<th>Recommendation</th>
<th>Status</th>
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| 1.  | Travel Advances/Reimbursements | **Recommendation:**  
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. |  
- 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 (Original):  
Management concurs with the recommendations. Our action plan follows:  
- Review travel and entertainment guides | Not fully implemented. See current year recommendation regarding gratuity limits. |
| | | N/A. No travel advances noted in testing of transactions in the current year audit. | Not fully implemented. See current year recommendation regarding the obtaining of detailed receipts for credit card transactions. |
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.

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.

Anticipated Implementation Date (Original):
For the first two bullets above, May 31, 2014. For the third bullet implementation will be completed by August 31, 2014.