



February 26, 2018

Diana Natalicio, Ph.D., President
The University of Texas at El Paso
500 West University Avenue
Administration Building, Room 500
El Paso, Texas 79968-0500

Dear President Natalicio:

As required by The University of Texas (UT) System Board of Regents' *Rules and Regulations* (Regents' *Rules and Regulations*), Series 20205, titled "Expenditures for Travel and Entertainment by Chief Administrators and for the Maintenance of University Residences," the UT System Audit Office has completed the audit of presidential travel, entertainment, and university residence maintenance expenses.

The overall objective of this audit was to determine whether travel and entertainment expenses incurred by the presidents and their spouses and expenses for the maintenance of university residences were appropriate, accurate, and in compliance with applicable institutional policies and Regents' *Rules and Regulations*. The scope of the audit included expenses incurred from June 1, 2015 through May 31, 2017. The audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

We will follow up on the recommendation made in this report to determine its implementation status. Any requests for extension to implementation dates require approval from the System Administration Internal Audit Committee. This process helps enhance accountability and ensure that audit recommendations are implemented in a timely manner.

We appreciate the assistance provided by the offices of the president and internal audit in conducting this engagement.

Sincerely,

J. Michael Peppers, CPA, CIA, QIAL, CRMA
Chief Audit Executive

cc: David E. Daniel, Ph.D., Deputy Chancellor, UT System
Steven W. Leslie, Ph.D., Executive Vice Chancellor for Academic Affairs, UT System
Ricardo Adauto III, Executive Vice President, UTEP
Lori Wertz, Chief Audit Executive, UTEP

**Presidential Travel, Entertainment, & University Residence
Maintenance Expenses Audit Report
The University of Texas at El Paso
FY 2017**



February 2018

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**The University of Texas System Audit Office
Presidential Travel, Entertainment, & University Residence Maintenance
Expenses Audit – UTEP
Fiscal Year 2017**

AUDIT REPORT

February 2018

BACKGROUND

As required by The University of Texas (UT) System Board of Regents' *Rules and Regulations*, Series 20205, titled "Expenditures for Travel and Entertainment by Chief Administrators and for the Maintenance of University Residences" (Regents' Rule 20205), the UT System Audit Office has completed the audit of presidential travel, entertainment, and university residence maintenance expenses. Guidance for these expenses is provided by various state laws, rules and regulations promulgated under those laws, and UT System and institutional travel and entertainment policies and procedures including, but not limited to, Regents' Rule 20205. While each of the institutional presidents is subject to the annual audit, substantive testing of their expenses is determined on a year-to-year basis. This assessment is made based both on analysis of risk and an element of rotation to ensure audit coverage of all presidents every two years. In addition, expenses will be audited at least by the first full fiscal year after a new president assumes office.

AUDIT OBJECTIVE

The specific objective of this audit at UT El Paso (UTEP) was to determine whether travel and entertainment expenses incurred by the president and expenses for the maintenance of University residences (Hoover House) were appropriate, accurate, and in compliance with applicable institutional policies and Regents' *Rules and Regulations*.

SCOPE AND METHODOLOGY

The scope of this audit included expenses incurred from June 1, 2015 through May 31, 2017. UTEP did not have international travel expenses during the audit scope.

The audit methodology consisted of reviewing applicable institutional policies and procedures and assessing internal controls. In addition, substantive testing was performed on a sample of travel, entertainment, and Hoover House expenses. The audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

AUDIT RESULTS

Approval of University Residence Maintenance Expenses and Completeness of Annual Report

The president resides in Hoover House, a University-owned residence, as required by the president's employment contract. Hoover House plays a dual role as both a residence and a center of hospitality for UTEP. Regents' Rule 20205 contains various requirements for expenses related to a University residence, including approval by the chief business officer (CBO), additional approval by a UT System committee (composed of the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, and the General Counsel to the Board of Regents) for larger expenses (over \$10,000), and inclusion of expenses in reports to UT System.



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Some expenses for Hoover House and its grounds were not included in the reports submitted to UT System, which primarily occurred due to UTEP’s interpretation of what is considered to be a University residence maintenance expense. Additionally, approval by the CBO was not always documented for maintenance expenses. Lastly, there was inconsistent approval from the UT System committee for maintenance expenses over \$10,000.

As Regents’ Rule 20205, Section 5.2, is currently written, University residence maintenance expenses reimbursed (any amount) and paid on behalf of the president (over \$100) require CBO approval. Based on the consideration that maintenance expenses paid on behalf of the president that are of lower dollar amounts have reduced risk in their recurring and routine nature and the high volume of these types of transactions, Regents’ Rule 20205 is being revised to increase the threshold that requires review and approval by the CBO from \$100 to \$1,000. (Note: This does not affect maintenance expenses directly reimbursed or any travel and entertainment expenses.) Consequently, the following recommendation is written to comport with the updated Rule.

The observation described above is considered a **medium-level** finding in accordance with UT System’s internal audit finding classification system¹.

Recommendation:

The President’s Office should work with Facilities Management to develop a process to ensure that all Hoover House maintenance expenses exceeding \$1,000 are identified and included in the annual report submitted to UT System. Maintenance expenses are defined as “expenses related to a State-owned residence,” which includes furnishing, maintenance, or repair/renovation of the residence and its grounds. In addition, approval by the CBO should be documented for maintenance expenses per the revised Regents’ Rule 20205 (reimbursements of any amount and payments made on behalf of the president that are greater than \$1,000). For those maintenance expenses exceeding \$10,000, the President’s Office should also consistently obtain advance and documented approval from the UT System committee.

Management’s Response:

We concur with the recommendations and with the revised Regents’ Rule 20205, Section 5.2.

Implementation Date:

We will begin to develop the appropriate procedures on March 1, 2018.

¹ The UT System Internal Audit finding Classification System includes Priority, High, Medium, or Low level findings. 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.” Non-Priority Findings are ranked as High, Medium, or Low, with the level of significance based on an assessment of applicable Qualitative, Operational Control, and Quantitative risk factors and probability of a negative outcome occurring if the risk is not adequately mitigated.




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CONCLUSION

Overall, the travel and entertainment expenses incurred by the president appeared appropriate, accurate, and in compliance with applicable policies. However, a recommendation related to approval and reporting of University residence maintenance expenses was made to ensure compliance with Regents' Rule 20205. Additionally, a minor issue related to adequate documentation for entertainment expenses was separately communicated to management.



J. Michael Peppers, CPA, CIA, QIAL, CRMA
Chief Audit Executive



Moshmee Kalamkar, CPA, CIA
Assistant Director