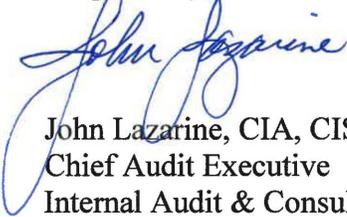

Date: May 24, 2018
To: Gerard Long, Assistant Vice President of Business Affairs
From: John Lazarine, Chief Audit Executive
Internal Audit & Consulting
Subject: Audit Report – Executive Travel & Entertainment

As part of our FY 2018 Audit Plan, we recently completed an audit of Executive Travel & Entertainment. Attached is the report detailing the results of this review. Management's Action Plans are included in the report.

We appreciate the cooperation and assistance we received from Business Affairs throughout the review.

Respectfully,



John Lazarine, CIA, CISA, CRISC
Chief Audit Executive
Internal Audit & Consulting Services

Distribution:

cc: Dr. William Henrich, President
Michael Black, Sr. EVP & COO
Andrea Marks, VP & CFO
Jack Park, Chief Legal Officer

External Audit Committee Members:

Pat Frost
Ed Garza



UT Health

San Antonio

Internal Audit &
Consulting Services

**Executive Travel & Entertainment Audit
(Project # 18-10)**

May 24, 2018

John Lazarine, CIA, CISA, CRISC
Chief Audit Executive

Internal Audit Staff:

*Kimberly Weber, Audit Manager, CIA, CFE, CGAP, CRMA, CICA, MPA
Joe Lopez, Senior Auditor, CICA, MSA*

Executive Summary

As part of our approved annual Audit Plan we completed an audit of the travel and entertainment disbursement process. The audit objectives, conclusions, and recommendations follow:

Audit Objective

The objective of this audit was to evaluate and test compliance with UT Health San Antonio and UT System policies for travel and entertainment (T&E) expenses incurred by executive leadership and select staff across the institution.

Conclusion and Corrective Actions

Based on the audit work performed, we concluded that T&E expenditures generally comply with UT Health San Antonio and UT System policies. However, we identified opportunities to enhance and enforce existing T&E policies, specifically:

- T&E expenses should be reviewed and approved by the Supervisor or by a delegate at an equal or higher level, to ensure expenses are reasonable and appropriate.
- Employees are not consistently utilizing the corporate travel agency, as required by Institutional policy.
- Institutional T&E policies can be difficult to find and do not contain sufficient procedural guidance.
- Three duplicate reimbursement payments, totaling \$371, were identified.

We recommend management:

- Enhance language in current T&E policies and procedures to ensure the appropriate level of management is reviewing and approving business transactions.
- Add links to the Travel Services website to all pertinent T&E policies and procedures.
- Recoup reimbursement of duplicate payments totaling \$371 made to the three employees in error.

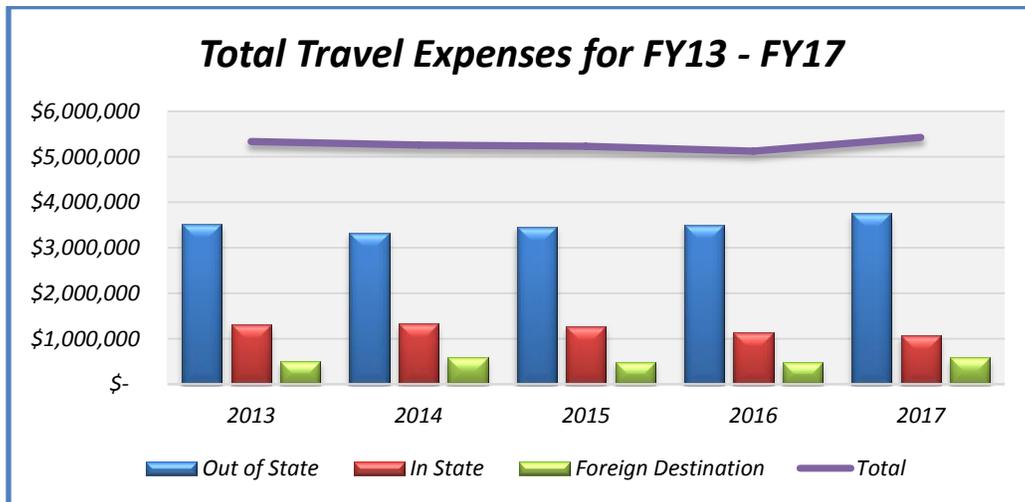
Acknowledgement

We appreciate the courtesy and cooperation we received from Business Affairs and various departments throughout the audit.

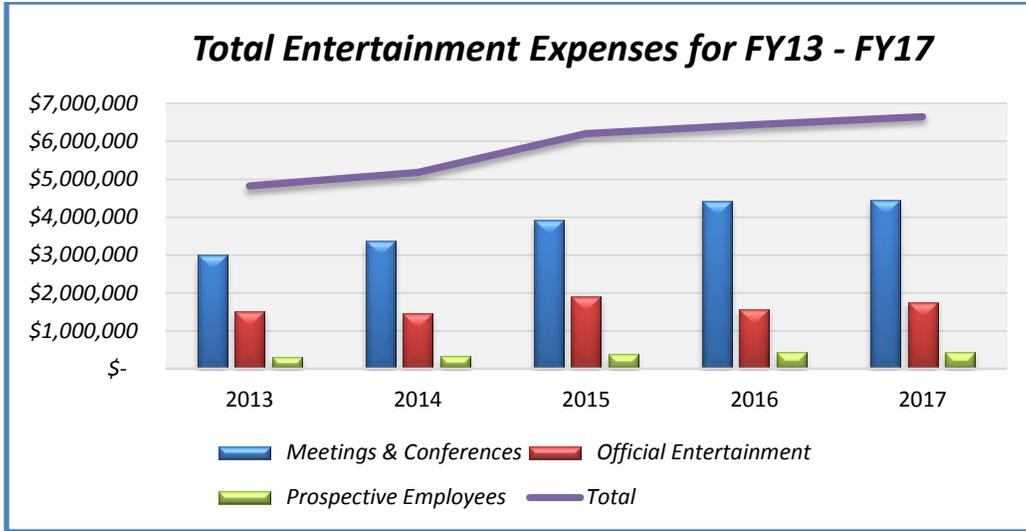
Background

Travel and entertainment (T&E) expenditures are governed by Federal and State regulations, UT System Board of Regents Rules and Regulations, and UT Health San Antonio policies and procedures, as well as restrictions by grantors and donors.

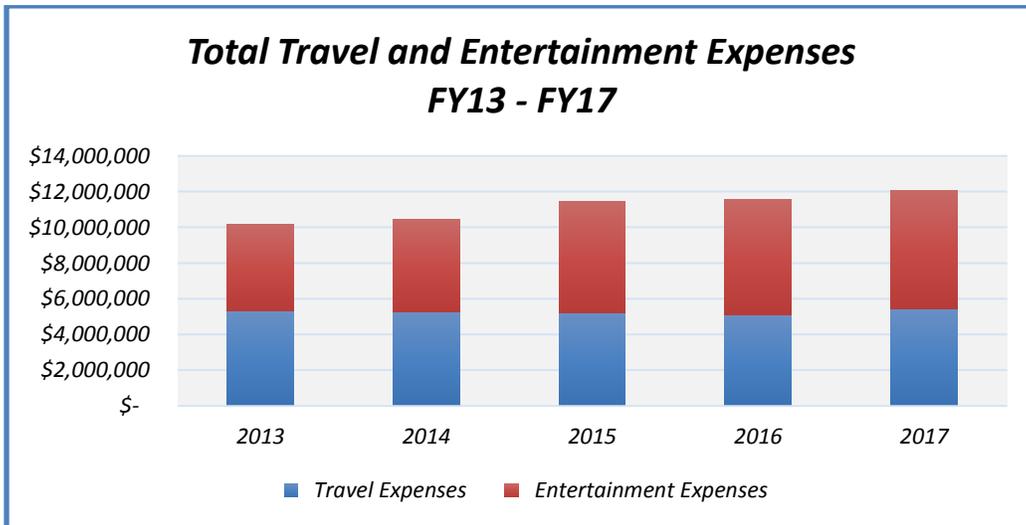
Business Affairs, specifically the Accounting Office, is responsible for processing all T&E expenditures for UT Health San Antonio. During Fiscal Year (FY) 17, UT Health San Antonio incurred \$5.4 million in travel expenses and \$6.6 million in business entertainment expenses. Total T&E expenses represented approximately 1.5% of the \$804 million operating budget during FY17. For the past five years, travel expenses have remained relatively stable with a slight increase between FY16 and FY17, while entertainment expenses have increased at varying rates since FY14. The trends are depicted below:



Category of Expenses	2013	2014	2015	2016	2017
Out of State	\$ 3,515,611	\$ 3,338,075	\$ 3,463,038	\$ 3,509,300	\$ 3,765,107
In State	1,316,578	1,333,103	1,277,216	1,134,914	1,072,531
Foreign Destination	504,301	591,940	492,246	482,665	589,908
Total	\$ 5,336,490	\$ 5,263,118	\$ 5,232,499	\$ 5,126,879	\$ 5,427,546



Category of Expenses	2013	2014	2015	2016	2017
Meetings & Conferences	\$ 3,007,024	\$ 3,379,200	\$ 3,916,524	\$ 4,438,668	\$ 4,465,226
Official Entertainment	1,508,879	1,450,992	1,892,388	1,569,665	1,760,100
Prospective Employees	309,127	346,818	393,100	433,490	425,308
Total	\$ 4,825,030	\$ 5,177,010	\$ 6,202,011	\$ 6,441,823	\$ 6,650,634



Category of Expenses	2013	2014	2015	2016	2017
Travel Expenses	\$ 5,336,490	\$ 5,263,118	\$ 5,232,499	\$ 5,126,879	\$ 5,427,546
Entertainment Expenses	4,825,030	5,177,010	6,202,011	6,441,823	6,650,634
Total	\$ 10,161,519	\$ 10,440,128	\$ 11,434,510	\$ 11,568,703	\$ 12,078,181

Audit Scope and Methodology

The scope of this audit included T&E vouchers for UT Health San Antonio employees during the period of September 1, 2016 through August 31, 2017 (FY17). The objective of this audit was to review executive leadership T&E expenses for FY17. In addition, at Management's request, we also included the top 10 non-executive T&E spenders in our testing and analysis.

Testwork included interviews with Accounting and department personnel, as well as verification of T&E reimbursements through review of supporting documentation. The sample size consisted of 26 employees (16 executives¹ and the top 10 non-executive spenders), 524 vouchers (218 travel vouchers and 306 entertainment vouchers), totaling to \$243,976 (\$154,935 travel expenses and \$89,041 entertainment expenses) in reimbursements. Testing criteria included Federal and State of Texas laws and regulations, UT System Board of Regents' Rules and Regulations, and UT Health San Antonio policies (HOP)² and procedures, as well as restrictions by grantors and donors.

The T&E data reviewed was obtained from UT Health San Antonio's Financial Management System (PeopleSoft). Our reliance was based on performing direct tests on the data, and did not include an evaluation of the system's general and application controls. Our direct testing included inspection of supporting documentation and compliance to Federal, State and Institutional requirements.

We conducted this audit in accordance with the standards set forth by the Institute of Internal Auditors' International Professional Practices Framework. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was conducted by the following staff members within the UT Health San Antonio's Internal Audit Department:

- Kimberly Weber, CIA, CGAP, CFE, CRMA, CICA, MPA, Audit Manager
- Joe Lopez III, CICA, MSA, Senior Auditor

¹ The President is not included in the sample selection since UT System conducted an audit of his T&E expenses in February 2018, as part of UT System's Audit Plan.

² UT Health San Antonio Handbook of Operating Procedures, referred to as the "HOP".

Audit Results and Recommendations

A. HOP Travel Reimbursement Policy

Based on the audit work performed, we concluded that while T&E expenditures generally comply with UT Health San Antonio and UT System policies, opportunities exist to enhance and enforce current guidelines, specifically within the approval process.

Level of Approval

During the course of our audit, we identified 188 vouchers (76 travel and 112 entertainment) totaling \$98,273 in expenses (\$73,248 travel and \$25,025 entertainment) that did not contain approval from the employees' supervisor.

HOP Travel Reimbursement Policy 6.2.14 states, *“Reimbursement of travel or entertainment expenses must be approved by the supervisor or department head (or by his or her designee) of the individual being reimbursed. A subordinate of the traveler or employee being reimbursed is not a sufficient approver.”*

Although the approver(s) were not a direct subordinate of the employee (traveler), the approver's delegates, were generally department administrative staff who were not at an equal or higher authority level than the employee submitting the expense reimbursement request. While using administrative staff to ensure appropriate funding sources and other procedural requirements are met is reasonable, it is not a good business practice to have them review expense reports for necessity and reasonableness. If the supervisor is going to delegate the responsibility of reviewing and approving expense reports, it should be at a level equal to or above the supervisor's.

To further this point, we noted the following example: an employee (faculty) whose supporting documentation appeared to have been submitted appropriately and within policy attended a conference in Hawaii. However, the employee was approved to attend the conference for a week. The conference was only three days, so the perception is the employee received two additional days in Hawaii with expenses paid by the department. There may be reasonable explanations for the trip and/or additional days, but the optics may not look favorably on the institution when the details of the trip are not fully documented. Business decisions such as these should be reserved for department heads and/or executive management who have the responsibility and authority to approve business trips that may appear to be extravagant and question any perceived benefits. Accounting staff and various administrative staff stated that they would not be comfortable questioning a trip such as this, especially from an individual at a higher job grade.

Corporate Travel Services Not Consistently Used

The audit identified two employees, with 28 travel vouchers (\$30,788), where corporate travel services were not used, as required by HOP Purchase of Airline Tickets Policy 6.2.12.

- Employee A: 25 vouchers processed for \$27,190
- Employee B: 3 vouchers processed for \$ 3,598

HOP Purchase of Airline Tickets Policy 6.2.12 states, *“All airfares for official University travel without regard to source of funds must be purchased using a State of Texas corporate travel account through either (1) a state issued credit card or (2) use of a central bill account through the contracted travel agency.”*

Of the 26 employees selected for review, one employee intentionally did not use corporate travel 100% of the time. The employee’s supervisor was not aware of the requirement to use corporate travel. In addition, the supervisor did not review the employee’s travel directly; instead, she delegated the approval process to the Department’s Finance and Administration Manager.

The audit found that as long as a quote from corporate travel was attached to the documentation, the reimbursement would be processed for payment by Accounting. For example, the individual that had 25 vouchers processed during FY17, did not use corporate travel for any of the trips taken. All 25-travel vouchers contained a quote from corporate travel but the traveler opted to book their own airfare and pay with a personal credit card. The Manager of Finance and Administration approved the transactions because she thought the employee was using corporate travel services based on the documentation that was included within the reimbursement request (corporate travel - airfare quote). Based on discussions with management and staff, we determined that when employees do not use corporate travel services to purchase their airfare, it is generally for one of the following three reasons: 1) they are not aware of the requirement to use corporate travel, 2) airfare can be obtained elsewhere cheaper, and 3) lack of flexibility in booking and changing trips at the last minute.

Enforcement of Travel & Entertainment Policy is Not Consistent

Based on discussions with departmental and administrative staff, there is an opportunity to enhance the current (T&E) policies by clarifying who can review and approve T&E expenses and, who is responsible and accountable for ensuring compliance with these policies. During interviews conducted during this audit, we found several instances where departmental administration staff thought that either Accounting or the Office of Sponsored Programs, were the final check to ensure compliance to institutional policies and other various requirements (i.e. federal and state grants). However, Accounting relies on the Departments to ensure that expenses are appropriate and reasonable and in

compliance with the HOP. The Office of Sponsored Programs stated that they do not review all grant-funded transactions, nor do they have the resources to check every grant-related transaction for appropriateness.

Management should review this process, and where needed, revise the appropriate HOP to ensure clarity regarding the role and responsibilities of the employee and the reviewer. Ensuring that authority, accountability and enforcement roles and responsibilities are clearly addressed in the institutional wide policies and procedures is important to help minimize the unnecessary risk of financial loss due to a lack of clarity regarding the submission and review process.

Access to Travel & Entertainment Policy and Procedures

Institutional policies and procedures regarding T&E transactions are difficult for employees to find and follow. There are over 15 institutional T&E policies in the HOP. However, none contain procedural instructions to enhance compliance with these policies. Currently, processing procedures are available in the UT Health San Antonio Knowledge Center (employee training webpage) and/or within Business Affairs, not all of the procedures are formally documented. Based on the discussions held throughout the audit, there is an opportunity to enhance the process of communicating the expectation of employees and the supervisors across the institution to properly submit and process T&E reimbursements. All T&E policies and procedures should be documented and located in a place where they will be easy to find.

Risk to the Institution

Travel and entertainment activities are required in order to achieve key institutional initiatives involving research and educational endeavors. The institution expended \$12 million during FY17 from federal, state, practice plan and gift income. As such, strong internal controls should be in place in order to reduce the risk of: 1) financial loss due to misappropriation or 2) damage to the institutions reputation by the appearance of unsatisfactory stewardship of state funds.

Risk Ranking: *Medium*

Recommendations

A.1 The Assistant Vice President for Business Affairs should enhance language in current T&E policies and procedures to ensure the appropriate level of management is reviewing and approving T&E related expenses.

A.2 The Assistant Vice President for Business Affairs or his designee should add links to the Travel Services website to all pertinent T&E policies and procedures.

Management Response

A.1 HOP sections 6.1.5 and 6.2.9 address the need for hierarchical approval for employee T&E reimbursements. These HOP sections will be updated to clarify that hierarchical approval requires the designee of an employee's supervisor to be someone in the chain of command above the employee for purposes of authorizing travel and entertainment activities and reimbursement. HOP section 6.2.12 on contracted airfare requirements will be updated to reflect UT System policy as stated in Business Affairs Bulletin 04-2014 (page 3), which describes the allowable exceptions to the rule that travelers must use our contracted travel agencies to procure airfare. In addition, HOP section 6.2.22 will be revised to simplify allowable travel charges for lodging and meals by fund group, with an anticipated increase in lodging and meal expense limits for the fund groups most frequently charged with travel costs.

A.2 Update Business Affairs web pages in MY UT Health intranet to provide quick links to T&E policies and procedures. Initiate the publication and dissemination of a periodical newsletter from the Office of Accounting with the objective of keeping department administrators aware of the requirements for expensing travel and entertainment costs (among other Accounting policies and procedures).

B. Duplicate Reimbursements

Based on the results of the audit, the internal controls currently in place to safeguard against duplicate T&E reimbursements are generally working as intended. We did however, identify four duplicate reimbursement payments totaling approximately \$371 (out of a population of over \$4.4 million for FY 2017), equating to an error rate of less than .008%. See the table below for transaction details.

<i>School</i>	<i>Department</i>	<i>Amount</i>
UT Dentistry	Periodontics	151.00
Long School of Medicine	Psychiatry	127.94
Graduate School	Biomedical Sciences	92.73
Total		\$371.67

While \$371.67 is immaterial to the total spend tested, since these are state funds, management should attempt to recoup the duplicate payments made to employees.

Risk Ranking: *Low*

Recommendations

B.1 The Assistant Vice President for Business Affairs should recoup reimbursement payments totaling \$371.67 made in error to the three employees.

Management Response

B.1 Notify employees involved of overpayment, secure repayment from the three, and reimburse the project/cost centers erroneously overcharged.

Appendix A – Audit Issue Ranking Definitions

The audit issue was ranked according to the following University of Texas System Administration issue ranking guidelines:

- **Priority** – A Priority Finding is defined as an issue identified by internal audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of the Health Science Center or the UT System as a whole.
- **High** – A finding identified by internal audit that is considered to have a medium to high probability of adverse effects to the Health Science Center either as a whole or to a significant college/school/unit level.
- **Medium** – A finding identified by internal audit that is considered to have a low to medium probability of adverse effects to the Health Science Center either as a whole or to a college/ school/unit level.
- **Low** – A finding identified by internal audit that is considered to have minimal probability of adverse effects to the Health Science Center either as a whole or to a college/ school/unit level.