



January 29, 2019

Guy H. Bailey, Ph.D.
The University of Texas Rio Grande Valley
Office of the President
2102 Treasure Hills Boulevard
Harlingen, Texas 78550

Dear President Bailey:

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 report is attached for your review.

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, 2017 through May 31, 2018. 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*.

Follow up procedures will be performed on recommendations made in this report to determine their implementation status. Any potential requests for extension to the implementation dates require approval from the UT System Administration Internal Audit Committee. This process will help 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 audit.

Sincerely,

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

cc: Steven W. Leslie, Ph.D., Executive Vice Chancellor for Academic Affairs, UT System
Rick Anderson, Executive Vice President for Finance and Administration, UT Rio Grande Valley
Eloy R. Alaniz, Chief Audit Officer, UT Rio Grande Valley

**The University of Texas Rio Grande Valley
Presidential Travel, Entertainment, & University Residence
Maintenance Expenses Audit Report
FY 2018**



January 2019

THE UNIVERSITY OF TEXAS SYSTEM AUDIT OFFICE
210 WEST SEVENTH STREET
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**The University of Texas System Audit Office
Presidential Travel, Entertainment, & University Residence Maintenance
Expenses Audit – UT Rio Grande Valley
Fiscal Year 2018**

AUDIT REPORT

January 2019

BACKGROUND

As required by The University of Texas (UT) System Board of Regents' (Regents) *Rules and Regulations*, Series 20205, titled "Expenditures for Travel and Entertainment by Chief Administrators and for the Maintenance of University Residences" (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, 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 Rio Grande Valley was to determine whether travel and entertainment expenses incurred by the president and his spouse 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, 2017 through May 31, 2018. UT Rio Grande Valley did not have international travel or spousal travel/entertainment expenses during the audit scope and does not have university residence maintenance expenses.

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 and entertainment 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 & CONCLUSION

Overall, the travel and entertainment expenses incurred by the president appeared appropriate, accurate, and in compliance with applicable policies. Adequate internal controls are in place and functioning as intended, except as noted below. An additional minor observation was separately communicated to management.

Chief Business Officer (CBO) Approval

For presidential travel and entertainment expenses not paid with his One Card (credit card for business travel and entertainment expenses), CBO approval is not obtained as required by Regents' Rule 20205. This observation is considered a **medium-level** finding in accordance with UT System's internal audit finding classification system¹.

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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Recommendation:

The Office of the President should implement a process to ensure that travel and entertainment expenses that are paid using methods other than the president's One Card are also reviewed by the CBO with documented approval.

Management's Response:

The Office of the President is working closely with the offices of the Executive Vice President for Finance & Administration (EVPFA), Procurement and Internal Audits to implement an electronic process where the CBO will be able to approve all presidential travel and entertainment expenses. The implementation of this new electronic process in the following months will ensure that the Office of the President will have all the documented approvals from the CBO for these expenses. Until the electronic process is implemented, the Office of the President will continue to provide hard copies to the CBO for review of documented expenses.

One-Card:

- The new process to delegate the approval from the Project Manager to the CBO will be tested in the coming weeks. The new process will ensure that all travel and entertainment expenses for the month are captured for review and approval by the CBO.

Business Expense Reimbursement:

- The President's business expense reimbursements will be assigned to the CBO in the iShop system when they are initiated to ensure that all expenses are reviewed and approved by the CBO in accordance with appropriate policies.

Implementation Date:

June 30, 2019

Texas State Hotel Occupancy Taxes

Texas state hotel occupancy taxes were paid for some trips tested. Per Texas Tax Code Chapter 156, educational organizations are exempt from paying state hotel occupancy tax. This observation is considered a **medium-level** finding in accordance with UT System's internal audit finding classification system¹.

Recommendation:

The Office of the President should implement a process to ensure that the president provides a completed tax exemption certificate for Texas lodging so that hotel occupancy taxes are not paid going forward. Additionally, a review of past Texas trips should be performed to identify if other payments of hotel occupancy tax were made, either with state or local funds. If discovered, efforts should be made to request refunds from the hotels. If any reimbursements were received from the State Comptroller for payments from state funds, they should be returned.

Management's Response:

The Office of the President is strengthening the process by providing the President with the tax exemption form for all his travels. Furthermore, the Executive Assistant to the President is making sure to send the tax exemption form for the lodging so that hotel occupancy taxes are not charged. After the travel, the Executive Assistant and the Accountant for the Office of the President will review the hotel folio for the trip to ensure that the state taxes were not paid. If the tax exemption form is omitted and the taxes are paid, the Executive Assistant will contact the hotel to ensure that the taxes are refunded to the President's One Card. A review of the past Texas trips for the President is being performed by the Accountant and Executive Assistant to



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ensure that no additional state taxes were paid during the year. The hotels will be contacted if the taxes were paid to request a refund to the university account.

Implementation Date:

February 28, 2019

Supporting Documentation

There were instances in which the supporting documentation maintained for travel and entertainment expenses did not provide sufficient explanation for certain circumstances (e.g., business purpose, reasons for flight changes/cancellations, evidence of reimbursement for a personal expense, and identification and explanation of entertainment expense overages). This observation is considered a **low-level** finding in accordance with UT System's internal audit finding classification system¹.

Recommendation:

The Office of the President should ensure that adequate explanation is included in the supporting documentation submitted with travel and entertainment expenses, specifically when there is a special or unusual occurrence, to assist in the CBO review process. Consideration should be given to adding information to show cost per person for business entertainment expenses, so that any overages are clearly identified, reviewed, and approved.

Management's Response:

The Office of the President will ensure that adequate explanation is included in all supporting documentation for travel and entertainment expenses to assist the CBO in the review process. For travel, the documentation sent to the CBO will include the business purpose as well as the reasons, if any, for flight changes/cancellations that occur during the trip and any planned personal expenses that the President might make. For entertainment expenses, the documentation submitted to the CBO for approval will include the business purpose, participants and their title (when 10 or less), and will clearly identify any entertainment overages in the cost allowance per person to ensure that the CBO has all relevant information necessary when reviewing and approving these expenses.

Implementation Date:

February 28, 2019

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

Moshmee Kalamkar, CPA, CIA
Assistant Director