



The University of Texas System
Nine Universities. Six Health Institutions. Unlimited Possibilities.

System Audit Office

702 Colorado Street, Austin, TX 78701
Phone: 512-499-4390 Fax: 512-499-4426

March 27, 2013

Francisco G. Cigarroa, M.D., Chancellor
Office of the Chancellor
The University of Texas System Administration
601 Colorado Street, OHH 4th Floor
Austin, Texas 78701

Dear Dr. Cigarroa:

We have completed the audit of the UT System Administration Executive Officers' travel and entertainment expenditures. The detailed report is attached for your review.

We conducted our audit in accordance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

We appreciate the support and assistance provided by the staff from various offices of UT System Administration.

Sincerely,

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

cc: Francie A. Frederick, General Counsel to the Board of Regents
Scott C. Kelley, Executive Vice Chancellor for Business Affairs
Pedro Reyes, Executive Vice Chancellor for Academic Affairs
Kenneth I. Shine, M.D., Executive Vice Chancellor for Health Affairs
Barry D. Burgdorf, Vice Chancellor and General Counsel
Barry McBee, Vice Chancellor and Chief Governmental Relations Officer
Randa S. Safady, Vice Chancellor for External Relations
William H. Shute, Vice Chancellor for Federal Relations
Amy Shaw-Thomas, Vice Chancellor for Health Affairs
Patricia D. Hurn, Vice Chancellor for Research and Innovation
Stephanie A. Huie, Vice Chancellor for Strategic Initiatives *ad interim*
Jana Pankratz, Deputy to the Chancellor
Randy Wallace, Associate Vice Chancellor, Controller and Chief Budget Officer

The University of Texas System Administration

Report on the Executive Officers' Travel and Entertainment Expenditures Audit Fiscal Year 2013



March 2013

**THE UNIVERSITY OF TEXAS SYSTEM AUDIT OFFICE
702 COLORADO STREET, CLB 3.100
AUSTIN, TEXAS 78701-2981
(512) 499-4390**



**The University of Texas System Administration
Executive Officer's Travel and Entertainment Expenditures Audit
Fiscal Year 2013**

AUDIT REPORT

March 2013

BACKGROUND

Since Fiscal Year (FY) 2007, The University of Texas (UT) System Audit Office has been conducting audits of the travel, entertainment, and University residence maintenance expenses for which the Chancellor and his spouse have been reimbursed or that have been directly paid on their behalf. This audit is required by the UT System Board of Regents' *Rules and Regulations*, Series 20205 (Rule 20205): Expenditures for Travel and Entertainment by Chief Administrators and for the Maintenance of University Residences. To further enhance transparency and accountability, the Chancellor requested that an audit also be performed of the travel and entertainment expenses of the UT System Administration Executive Officers (Executive Officers) beginning in FY 2013.

There are 11 Executive Officers: Executive Vice Chancellor for Academic Affairs, Executive Vice Chancellor for Health Affairs, Vice Chancellor for Health Affairs, Vice Chancellor for Research and Innovation, Executive Vice Chancellor for Business Affairs, Vice Chancellor and General Counsel, Vice Chancellor and Chief Governmental Relations Officer, Vice Chancellor for Federal Relations, Vice Chancellor for External Relations, Vice Chancellor for Strategic Initiatives, and General Counsel to the Board of Regents. The Executive Officers' travel and entertainment expenses will be subject to review annually but may not necessarily be selected to be audited every year.

UT System Administration makes reimbursements to, or payments on behalf of, the Executive Officers for travel and entertainment expenses that they incur as part of their official duties. Guidance for the Executive Officers' expenses is provided by various state laws and rules and regulations promulgated under those laws, as well as Systemwide and UT System Administration policies and procedures, including, but not limited to, INT114 Travel Policy (Travel Policy); INT115 Administrative Policy on Entertainment Expenses and Guidelines on Other Uses of Institutional/Gift Funds (Entertainment Policy); and various UT System purchasing policies.

AUDIT OBJECTIVE, SCOPE, & METHODOLOGY

The objective of the audit was to determine whether the travel and entertainment expenses reimbursed to, or directly paid on behalf of, the Executive Officers are appropriate and accurate. The audit scope included activity for the period September 1, 2011 through August 31, 2012. The audit procedures involved selecting a sample of expenses to test controls to determine whether applicable policies and procedures were properly followed and to perform substantive tests to determine whether expenses were appropriate and accurate. 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*.

RESULTS

We found that the Executive Officers' travel and entertainment expenses are appropriate and accurate. Additionally, the internal controls in place are properly functioning to ensure that applicable laws and UT System policies and procedures are being followed. However, we noted opportunities for enhancement related to the Entertainment Policy and supporting documentation for travel expenses.

Entertainment Policy

During our review of entertainment expenses, we found that approximately 20 percent of the expenses tested were in excess of the per person rate for meals in Texas, as prescribed by Appendix A of the Entertainment Policy. Although exceeding the meal rates is permitted by policy with authorized approval, which these expenses had, the number of occurrences that the rates were exceeded appeared



**The University of Texas System Administration
Executive Officer's Travel and Entertainment Expenditures Audit
Fiscal Year 2013**

noteworthy. We discovered that the per person meal rates in Appendix A of the Entertainment Policy have not been updated since the policy's inception on September 1, 2006. In addition, Appendix A does not include per person rates for meals outside of Texas; instead, it refers the approver of the expense to apply reasonable judgment for other locales, using the Texas meal rates as a general guideline. Also, while Appendix A states that the cost of alcoholic beverages may be included in the dinner meal rate, it does not explicitly comment on the allowability of including the cost of alcoholic beverages related to the breakfast and lunch meal rates. We found that alcohol was not reimbursed for breakfast or lunch meals in the sample that was tested. Additionally, Accounting and Purchasing Services clarified that, in practice, the cost of alcoholic beverages should not be included in the breakfast and lunch meal rates.

Related to approvals of entertainment expenses, the Entertainment Policy states "the authorized approver must be the supervisor (or higher level) of the host or the individual requesting reimbursement... If the host is seeking reimbursement of an amount in excess of the maximum per person rates, as specified in Appendix A, the authorized approver must be the appropriate executive officer (Chancellor, Executive Vice Chancellor, Vice Chancellor, or the General Counsel to the Board of Regents)." Through review of supporting documentation, we noted that the approval of entertainment expenses is sometimes delegated. While this delegation is formally documented by a written memo, the approver is not the supervisor (or higher level) of the individuals requesting reimbursement or an executive officer (for approval of reimbursements in excess of maximum rates) as the Entertainment Policy describes.

Recommendation

The Entertainment Policy should be reviewed to determine whether revisions are needed, specifically regarding the maximum per person rates for meals, the exclusion of the cost of alcoholic beverages as part of the breakfast and lunch meal rates, and clarification to expressly state what approvals and delegations are appropriate. Consideration should also be given to providing more specific guidance on rate limits for entertainment expense incurred in locales outside of Texas.

Management's Response

The Office of the Chancellor and the Office of the Controller are in agreement that U. T. System Administration Policy, INT 115 (Administrative Policy on Entertainment Expenses and Guidelines on Other Uses of Institutional/Gift Funds), should be reviewed and updated as appropriate. The changes that will be made and disseminated immediately include:

- Increased maximum per person expenditures for breakfast, lunch and dinner
- Approval of expenses can be made by Chancellor's designee
- Chancellor's formal approval of club memberships for Executive Officers and any personal charges incurred by Executive Officers, monthly dues are prorated and treated as taxable income
- Formalized we do not pay for retirement gifts that would be taxable to the recipient and review by the Office of General Counsel of any proposed retirement gift
- Increased allowable retirement function expense
- Holiday functions held by Executive Officers/Department Heads would be considered a personal event and not reimbursable
- Do allow for Holiday event for offices outside of Austin with Chancellor approval

Implementation Date: The amended policy will be distributed as quickly as possible.



**The University of Texas System Administration
Executive Officer's Travel and Entertainment Expenditures Audit
Fiscal Year 2013**

Supporting Documentation for Travel Expenses

According to the Travel Policy, reimbursement for meals and lodging that exceed locality-based maximum rates should include an explanation for exceeding the rate as part of the reimbursement request. If the locality-based combined meals and lodging rate (or \$220 when institutional funds are used) is exceeded during travel in Texas, approval in advance by an authorized signer is also required.

During our review of travel expenses, we noted several reimbursements for meals and lodging that exceeded the combined rate. Of these instances, many of the reimbursement requests did not appear to include a clear and sufficient explanation for the overages in the supporting documentation. Additionally, it was difficult to determine if advance approval was obtained for meal and lodging reimbursements that exceeded maximum rates for trips within Texas; one out-of-state trip was approved after the travel dates; and three out-of-state trips did not include the approval date.

Recommendation

The Executive Officers should be reminded to provide clear and sufficient explanation for exceeding the combined meals and lodging rate in the reimbursement request documentation. Approvals, as applicable, should be complete, timely, and documented as part of the reimbursement request. Consideration should also be given to updating the Travel Policy regarding advance approval for exceeding meals and lodging rates during in-state travel.

In addition, it may be beneficial for the Executive Officers to utilize a travel expense summary cover sheet (similar to what the Office of the Chancellor uses), especially for multi-destination trips or expense reimbursement vouchers.

Management's Response

The Office of the Chancellor has amended their internal procedures to include a checklist of all applicable documentation and policy requirements. Additionally, a training class for all travel voucher preparers for executive officers will be conducted to review the policies and expectations of documentation, including the requirement that a travel expense summary cover sheet be completed for each voucher.

Implementation Date

The checklist mentioned above will be completed and in place by March 31, 2013 and training will be held by May 30, 2013.

CONCLUSION

Overall, the Executive Officers' travel and entertainment expenses are appropriate and accurate and the internal controls in place are properly functioning to ensure that applicable state laws and UT System policies and procedures are being followed. However, we identified recommendations related to updating the Entertainment Policy and sufficient supporting documentation for travel expenses.

We would like to thank the staff from the various departments of the Executive Officers, the Office of the Chancellor, and Accounting and Purchasing Services for their support and assistance during this audit.

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

Moshmee Kalamkar, CPA, CIA
Manager of Audits