



UNIVERSITY OF
TEXAS
ARLINGTON

EXECUTIVE TRAVEL & ENTERTAINMENT EXPENSES AUDIT

NOVEMBER 19, 2014

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MEMORANDUM

TO: Dr. Vistasp Karbhari
President

FROM: Ken Schroeder *Ken Schroeder*
Director, Office of Internal Audit

DATE: December 3, 2014

SUBJECT: Executive Travel & Entertainment Expenses Audit Report
Dated November 19, 2014

Executive Summary

We have completed the Executive Travel & Entertainment Expenses audit as included in our FY 2014 annual audit plan. The objective of this audit was to determine whether executive travel and entertainment expenses are appropriate, accurate and comply with UT System and UT Arlington policies and procedures as well as federal and state laws and regulations.

Travel policies and procedures appear to be adequate and in compliance with federal and state laws and regulations. Our tests indicated that there were instances where the policy and procedures were not followed, such as prohibited alcohol purchases, inadequate supporting documentation, and segregation of duties/approval and authorization.

None of the findings are deemed as “priority findings” to the University. 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. Standard factors for determining a Priority Finding have been established in three categories: namely, Organizational Controls, Quantitative Risks, and Qualitative Risks.*”

We appreciate the courtesy and cooperation we received from Accounting Services – primarily Procurement Services, Travel Support Services and the Accounts Payable Department, in addition to the various executives contacted during the audit.

If you have any questions, please contact me at extension 2-2018.

MEMORANDUM: December 3, 2014

SUBJECT: Executive Travel and Entertainment Expenses Audit Report
Dated November 19, 2014

cc: Dr. Ronald L. Elsenbaumer, UT Arlington, Provost and Vice President for Academic Affairs
Ms. Kelly Davis, UT Arlington, Vice President for Business Affairs and Controller
Mr. John Hall, UT Arlington, Vice President for Administration and Campus Operations
Ms. Julia Cornwell, UT Arlington, Sr. Director of Procurement Services
Dr. Pedro Reyes, UT System, Executive Vice Chancellor for Academic Affairs
Mr. Alan Marks, UT System, Attorney – General Law Section
Mr. J. Michael Peppers, UT System, Chief Audit Executive
Ms. Moshmee Kalamkar, UT System, Audit Manager
Mr. Ed Osner, Legislative Budget Board
Mr. Jonathan Hurst, Governor’s Office of Budget, Planning and Policy
Internal Audit Coordinator, State Auditor’s Office
Mr. Ken Levine, Sunset Advisory Commission
Report File

Background Information

Since fiscal year 2007, Regents' Rules and Regulations 20205 "Expenditures for Travel and Entertainment by Chief Administrators and for the Maintenance of University Residences" required annual audits of the Chancellor's and Presidents' travel and entertainment expenses. To further efforts at improving transparency and accountability, the Chancellor requested that this audit be expanded to include the travel and entertainment expenses of all UT System executives beginning with fiscal year 2013. University guidance for reimbursement of travel and entertainment expenditures is provided by the following:

- Procedure 2-75: Allowable Expenditures Does Not Apply to State Accounts
- Procedure 2-80: Travel Authorization and Obtain Permission to Travel
- Procedure 2-81: Travel Services
- Procedure 2-83: International Travel
- Procedure 2-86: Meals, Lodging, Incidental Expenses and Other Fees for Travel for State and Local Funds
- Procedure 2-87: Travel for Persons Other Than Faculty and Staff Does Not Apply to State Accounts
- Procedure 2-89: Transportation Does Not Apply to State Accounts
- Procedure 2-90: Completing Required Documentation for Travel Reimbursements
- Procedure 4-26: Reimbursements and Payments Other Than for Travel and Purchase Orders
- Various federal, state, and UT System travel related policies, rules, and regulations

Objectives

The objective of this audit was to determine whether executive travel and entertainment expenses are appropriate, accurate and comply with UT System and UT Arlington policies and procedures as well as federal and state laws and regulations. The overall objective included several other key sub-objectives:

- To identify and test travel and entertainment payments made on behalf of the executive
- Determine if the airfares associated with the sampled trips were in compliance with state regulations
- Determine whether variances existed in spending patterns of selected executives

Scope and Methodology

Our examination was conducted in accordance with guidelines set forth in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. These *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of the internal

auditing department. UT System policy UTS 129 titled “Internal Audit Activities” requires that we adhere to the *Standards*.

To achieve the audit objective, we reviewed the relevant UT System/UT Arlington policies and procedures as well as related federal and state laws and regulations. We also received input from the Division of Business Affairs, Procurement Services Department and Accounts Payable Department. We used documents from IVAULT (UT Arlington’s accounting document repository) and DEFINE (University’s accounting system) reports and tested the following attributes:

- Expenses properly supported
- Mathematically correct
- Contained proper account and object codes
- Contained proper approvals
- Within allowable limits
- Filed timely
- No prohibited items
- Contained justifiable business purpose
- Properly recorded
- Approval received prior to travel (VE5)
- In accord with policy & procedure
- State/government hotel rate standards followed when applicable
- State airfare rates utilized

The scope of this audit included executive travel and entertainment expenses generated from April 1, 2013 to March 31, 2014. For purposes of the audit, the executive population was defined as management employees with the title of Vice President through Chairpersons. The total population selected for review included 83 persons with travel and entertainment expenditures for the period under review totaling \$348, 210.89.

We selected a sample of 10 executives from the population based on total spending. In addition, we selected an additional 3 executives based on input from Travel Services as to departments with high level travel and entertainment expenses in addition to abnormal exceptions resulting from previous reviews. In order to ensure diversity in the sample, we selected three Vice Presidents, seven Deans, and three Chairpersons. This group spent \$107,938.34 on travel and entertainment, which equated to 31% of the total expenditures. From the sample group, we reviewed 39 travel-related reimbursements for a total of \$52,850.99 of the \$107,938.34. We also examined 26 entertainment-related reimbursements for a total of \$5,146.55.

Audit Results

Alcohol Prohibition

Employees are not always deducting alcohol purchases from travel expenses as required, which leads to increased costs to the University. Procedure 2-86, *Meals, Lodging, Incidental Expenses and Other Travel Fees for Travel for State and Local Funds*, states that alcohol cannot be reimbursed on any travel budget code. During our testing, we noted two instances where alcohol was not deducted from travel expenses and was reimbursed to the respective employee.

1. **Recommendation:**

Travel Support Services should be more diligent when reviewing the supporting documentation received for travel expense reimbursements to ensure prohibited items are not included.

Management Response:

To ensure compliance with established travel related procedures, the Travel Services staff will review all travel reimbursement documents with a higher degree of detail to ensure that prohibited items are deducted from the travel expense and not reimbursed to the traveler. An email was sent to all staff of Travel Services on 11/20/14 requesting that travel expense reports be more closely examined with regard to alcohol purchases, and to ensure these prohibited items are deducted from the travel expense and not reimbursed to the traveler.

Target Implementation Date:

Immediately

Responsible Party:

Sr. Director of Procurement Services

Inadequate Supporting Documentation

Documentation to support reimbursements was not always adequate which could lead to inappropriate use of University funds. Procedure 4-26, *Reimbursements and Payments Other Than for Travel and Purchase Orders*, requires that the documentation presented for all meal reimbursements are fully itemized on the original receipt. We noted two instances, one in the College of Engineering and the other in the Department of Physics, where items tested did not include itemized meal receipts which totaled \$570.59. There was also insufficient information to determine if prohibited items were included since the receipts were not itemized.

2. **Recommendation:**

We recommend that Travel Support Services be more diligent in reviewing the supporting documentation for entertainment expenses to ensure fully itemized original receipts are included as required in Procedure 4-26.

Management Response:

To ensure compliance with Procedure 4-26 related to entertainment expenses, and itemized receipts, the Travel Services staff will be counseled to be more diligent in reviewing all reimbursement submittals. An email was sent to all staff of Travel Services on 11/20/14, restating the proper process about having a fully itemized original receipt, and what to do if an original itemized receipt is not available. Additionally, staff was asked to exercise diligence in reviewing the supporting documentation to ensure compliance with established procedure.

Target Implementation Date:

Immediately

Responsible Party:

Sr. Director of Procurement Services

Segregation of Duties/Authorization and Approval

Procedure 2-80, *Travel Authorization and Obtain Permission to Travel, Section II, Travel Authorization, Part C*, states that the Travel Authorization is to be completed by the department and approved by the immediate supervisor or department head. Additionally, Procedure 2-90, *Completing Required Documentation for Travel Reimbursements, Section I, Internal Control*, states that proper internal control procedures require that an individual not approve disbursements of funds to themselves. An individual receiving reimbursement or payment may not approve their own expense report. Individuals receiving reimbursement or payment will forward the online approval form to their supervisor for approval.

We noted three instances, one by the chair of Mechanical & Aerospace Engineering and two by the chair of Philosophy and Humanities, where the Request for Travel Authorizations were approved by the individual themselves and not their immediate supervisor. We also noted six instances, one for travel expenses for the chair of Mechanical & Aerospace Engineering, and three entertainment and two travel expenses for the chair of Philosophy and Humanities, where the expense reimbursements were being approved by the employees themselves. The Administrative Assistants did not properly route the expense reimbursement for approval resulting in the employees approving disbursement of funds to themselves. Lack of segregation of duties could lead to fraud or theft.

3. **Recommendation:**

Procurement Services should provide training in approving travel authorization and reimbursement expenses in the accounting system to the Administrative Assistants in the Mechanical and Aerospace Engineering and Philosophy and Humanities departments.

Management Response:

Together with Business Affairs Training and Development staff (TBD), the Manager of Disbursement, Procurement Services, will provide training to the Administrative Assistants of Mechanical & Aerospace Engineering and Philosophy/Humanities to better understand the approval process for travel authorizations and reimbursements in UTShare.

Target Implementation Date:

January 30, 2015

Responsible Party:

Sr. Director of Procurement Services

Analytical Review

Audit procedures were conducted to perform a comparative analysis between two 12-month periods (periods ending 3/31/13 and 3/31/14) for the expenses related to the initial 10 executives selected for testing as noted above. Total expenses for the period ending 3/31/14 were \$89,093.25 while the total expenses for the period ending 3/31/13 were \$55,368.28, resulting in an overall variance between these two periods of \$33,724.97. Of that variance, \$17,068.73 is attributed to two of the executives in our sample being new (hired subsequent to 3/31/13) and not having expenses in the prior period, while an additional \$10,733.64 can be attributed to an increase in foreign travel for a chairperson and two deans, all of which appear reasonable. The remaining \$5,922.60 is made up of a variety of amounts and are deemed immaterial individually, thus no further testing was completed on them. Nothing unusual was noted in the analysis conducted.

Conclusion

Travel policies and procedures appear to be adequate and in compliance with federal and state laws and regulations. Our tests indicated that there were instances where the policy and procedures were not followed, such as prohibited alcohol purchases, inadequate supporting documentation, and segregation of duties/approval and authorization.

None of the findings are deemed as “priority findings” to the University. 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. Standard factors for determining a Priority Finding have been*

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We appreciate the courtesy and cooperation we received from Accounting Services – primarily Procurement Services, Travel Support Services and the Accounts Payable Department, in addition to the various executives contacted during the audit.