



Office of Internal Audit

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January 25, 2016

Dr. Hobson Wildenthal, President *ad interim*
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of Executive Travel and Entertainment as part of our fiscal year 2016 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The objective of our audit was to ensure that executive travel and entertainment expenses made by executives, or on behalf of executives, were in compliance with travel and entertainment policies and procedures. This audit is required by UT System each year, and testing was focused on the Vice Presidents, Deans, and Endowed Chairs.

Overall, we found that a majority of executive travel and entertainment expenses complied with existing travel and entertainment policies and procedures. However, as noted during the fiscal year 2015 executive travel and entertainment audit (R1510), similar opportunities exist to enhance and enforce existing guidelines are outlined in the attached report.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens
Institutional Chief Audit Executive

UT Dallas Responsible Parties:

Pete Bond, Assistant Vice President for Procurement Management
Deborah Reynolds, Executive Director of Procurement Management

Members of the UT Dallas Institutional Audit Committee:

External Members:

Mr. Bill Keffler
Mr. Ed Montgomery
Ms. Julie Knecht
Dr. Inga Musselman, Acting Provost
Dr. Calvin Jamison, Vice President for Administration
Mr. Terry Pankratz, Vice President for Budget and Finance
Mr. David Crain, Vice President and Chief Information Officer
Dr. Bruce Gnade, Vice President for Research
Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer
Dr. Gene Fitch, Vice President for Student Affairs
Mr. Timothy Shaw, University Attorney

The University of Texas System:

System Audit Office

State of Texas Agencies:

Legislative Budget Board
Governor's Office
State Auditor's Office
Sunset Advisory Commission



Executive Summary

Executive Travel and Entertainment Audit, Report No. 1614

Audit Objective and Scope: The objective of this audit was to ensure that executive travel and entertainment expenses made by executives, or on behalf of executives, were in compliance with travel and entertainment policies and procedures. Testing was focused on Vice Presidents, Deans, and Endowed Chairs.

The following is a summary of the audit recommendations by risk level. See the Appendix for additional details.

Recommendation	Risk Level	Estimated Implementation Date
(1) <i>Improve Compliance with Existing Guidelines</i>	Medium	February 1, 2016
(2) <i>Ensure Reasonable Use of Institutional Funds</i>	Medium	February 1, 2016
Responsible Vice President: Terry Pankratz, Vice President for Budget and Finance	Responsible Party: Pete Bond, Assistant Vice President for Procurement Management	
Staff Assigned to Audit: <ul style="list-style-type: none"> • Project Leader: Brandon Bergman, CFE, Senior Auditor • Staff: Ray Khan, Staff Auditor; Bhavish Sharma and Demetrio Ramirez, students in the Internal Auditing Education program 		



Table of Contents

Background	4
Audit Objective	4
Scope and Methodology.....	4
Audit Results and Management’s Responses.....	5
Audit Recommendations	5
(1) <i>Improve Compliance with Existing Guidelines</i>	5
(2) <i>Ensure Reasonable Use of Institutional Funds</i>	7
Status of Prior Audit Recommendations.....	8
Conclusion	8
Appendix: Definition of Risks.....	9



Background

The Office of Procurement Management, reporting to the Vice President for Budget and Finance, is responsible for processing all travel and entertainment expenses, including those pertaining to executives. During fiscal year 2015, UT Dallas travel and entertainment expenses totaled approximately \$11,557,840. Executive travel and entertainment expenses totaled approximately \$1,043,302.

Within the Office of Procurement Management, Travel Management Services provides a website¹ with links to applicable policies, procedures, and helpful assistance to travelers and administrative staff that helps ensure compliance with travel policies. Employees are responsible for ensuring that their travel and entertainment expenses comply with university policies and procedures and support the mission of UT Dallas. Travel and entertainment expenses for all employees must be approved by the employee's supervisor before submission to Procurement Management for processing.

UT Dallas implemented and transitioned to the One Card program around the midpoint of fiscal year 2015. This new program utilizes a single card for both purchasing and travel activities. Procurement Management is in the process of evaluating the establishment of an electronic travel and expenses system. This system will transition the university towards a more automated system and will help enhance the efficacy of Procurement Management by automating the submission and approval process of one card and reimbursed expenses.

Audit Objective

The objective of this audit was to ensure that executive travel and entertainment expenses made by executives, or on behalf of executives, were in compliance with travel and entertainment policies and procedures.

Scope and Methodology

The scope of this audit was fiscal year 2015, and our fieldwork concluded on December, 16, 2015. To satisfy our objectives, we performed the following:

- Gained an understanding of travel and entertainment policies, procedures, and processes by reviewing applicable policies and procedures.
- Tested executive travel and entertainment expenses for compliance with UT Dallas policies and procedures, including proper authorization, appropriate documentation, and reasonableness.

¹ <https://www.utdallas.edu/procurement/departments/travel/>



- Testing was focused on vice presidents, deans, and endowed chairs. The President’s travel and entertainment expenses were audited separately as part of the UT System Audit Office FY 2016 Audit Plan.

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor’s *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

Audit Results and Management’s Responses

Controls

Our audit work indicated that the following controls currently exist:

- Overall, a proper separation of duties was in place for travel and entertainment expenses.

Audit Recommendations

Priority Findings – UT System: A UT System priority finding is defined by the UT System Audit Office 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.”² We have **no UT System Priority Findings** resulting from this audit.

However, although the above controls are in place, opportunities exist to enhance executive travel and entertainment compliance by implementing the recommendations outlined below.

(1) **Improve Compliance with Existing Guidelines**

Risk Rating: Medium ★

While we found that a majority of transactions tested did comply with applicable policies and procedures, we did note opportunities to improve compliance. We found that 27% of the transactions we tested did not comply with UT Dallas policies and/or procedures. Generally, noncompliance with existing guidelines was due to the following:

- Documentation of approval for exceeding the \$75 per person threshold for entertainment and per diem overages of hotels were not always submitted. Entertainment guidelines from AskYODA³ require a documented justification and

² The appendix defines the risk levels for all internal audit recommendations.

³ <http://utdallas.parature.com/link/portal/30075/30104/Article/1480/What-are-UTD-s-entertainment-reimbursement-limits>



approval when an employee exceeds the per person entertainment limit. Due to the nature of entertainment expenses and the potential media exposure, documentation explaining the overage with authorized approvals help ensure the charges were justified and risks are minimized.

- Supporting documentation, including a valid business purpose, did not always exist to support expenditures that were incurred. Without adequate documentation, it is difficult to verify the appropriateness of charges. The Travel Voucher Policy⁴ and guidelines from AskYODA⁵ require for receipts related to travel and entertainment expenditures be submitted for reimbursement.
- Travel authorizations were not always approved by a supervisor prior to travel. Currently, UT Dallas requires that a travel authorization form be completed by travelers and approved by their supervisors prior to travel (Travel Procedures General Policy⁶ and Travel Voucher Policy). Without a signed and dated form, it is difficult to verify if the travel was authorized before the trip occurred.

Recommendation: University guidelines for travel and entertainment expenses should be enforced, and expenses should not be processed until appropriate approvals and adequate supporting documentation has been provided, including itemized receipts, a complete business purpose, and authorized justifications for exceptions to the procedures. In addition, management should consider the use of the travel authorization form as processes become more automated.

Management's Response: Concur. Staff supporting travel reimbursements will be re-trained on all travel and entertainment expense policies/guidelines. Reimbursement requests without itemized receipts and/or complete business purposes, and/or authorized justifications for the exceptions will be returned to the traveler with a request for the additional information. Travel reimbursements will not be finalized without the additional information.

Estimated Date of Implementation: February 1, 2016

Person Responsible for Implementation: Debbie Reynolds, Executive Director, Procurement Management and Jene Janich, Director, Travel and One Card

⁴ <http://policy.utdallas.edu/utdbp3024>

⁵ <http://utdallas.parature.com/link/portal/30075/30104/Article/400/How-are-travel-expenses-reimbursed> and <http://utdallas.parature.com/link/portal/30075/30104/Article/830/Which-receipts-are-required-and-what-do-i-do-if-one-is-missing>

⁶ <http://policy.utdallas.edu/utdbp3015>



(2) **Ensure Reasonable Use of Institutional Funds**

Risk Rating: Medium ★

The Expenditure of Funds Policy (UTDBP3097⁷) states that “*Expenditure decisions should be evaluated and approved based on guiding principles of reasonable cost and best value for the University.*” During our review, we noted about six percent of the transactions tested may not comply with the principles established by this policy. Specifically, we noted the following:

- Meals were being reimbursed for meetings involving only University employees, both during and after work hours. Many of these meals were for staff meetings or to discuss research. According to AskYODA⁸, expenditures of institutional funds must support a public purpose and be cost-effective.
- Transportation expenses were reimbursed for luxury car services when other means of more economically efficient travel exist. The Transportation Allowance Policy⁹ states the cost of transportation using limousines may be paid only if is the lowest cost of transportation considering all circumstances. Although these luxury car services are not truly limousines, the use of a luxury car should still be cost-effective for the University.
- Employees were being reimbursed for the full meal per diem every day of travel, even when attending conferences where meals are typically provided. The Travel Procedures General Policy¹⁰ states that every employee is responsible to ensure travel regulations are followed and all information relevant to a travel reimbursement is presented accurately and in a true manner. AskYODA guidelines¹¹ state that the reimbursement is based on actual expenses and that the maximum per diem should not be claimed every day.
- Certain employees purchased first and business class airline tickets for travel. Approval for the class upgrade was provided; however, the approval had been granted in the form of a blanket approval made during a prior fiscal year. At minimum, annual approvals should be made if the employees had a valid reason for the upgrade.

⁷ <http://policy.utdallas.edu/utdbp3097>

⁸ <http://utdallas.parature.com/link/portal/30075/30104/Article/680/What-is-the-purpose-of-the-guidelines-for-entertainment-expense-and-reimbursement>

⁹ <http://policy.utdallas.edu/utdbp3025>

¹⁰ <http://policy.utdallas.edu/utdbp3015>

¹¹ <http://utdallas.parature.com/link/portal/30075/30104/Article/400/How-are-travel-expenses-reimbursed>



Recommendation: Existing controls should be enforced to ensure institutional funds are being expended in a reasonable and cost-effective manner. Management should consider enhancing procedures regarding the routine reimbursement of meals for employee-only meetings, meal per diems, and transportation expenses.

Management's Response: Concur. Procurement Management will request approval for enhancing policy surrounding university expenses as they relate to business meals. All requests will require business justification for the expense. Procurement Management will also request approval to enhance requirements surrounding reimbursement of luxury car services to include the need to justify that the luxury service is the lowest cost of transportation considering all circumstances.

Full meal per diem reimbursements are currently included on the exceptions listing that will be furnished to the VP Budgets and Finance quarterly. Procurement Management will continue to educate staff on the subject of meal reimbursements and review conference agendas to ensure that reimbursement of conference provided meals are NOT reimbursed without additional justification for doing so. Procurement Management will review all current blanket approvals for first and business class travel and will ensure that they are renewed annually.

Estimated Date of Implementation: February 1, 2016

Person Responsible for Implementation: Debbie Reynolds, Executive Director, Procurement Management and Jene Janich, Director, Travel and One Card

Status of Prior Audit Recommendations

The following is the status of implementation of the recommendations resulting from Internal Audit Report No. R1510, *Executive Travel & Entertainment*, dated March 4, 2015.

Recommendation	Implemented?
Consider Setting Entertainment Expense Limits	Yes
Improve Compliance with Existing Guidelines	No donations to charitable organizations were noted. However, as shown in recommendation (1) above, this remains in process.

Conclusion

Based on the audit work performed, we conclude that overall, executive travel and entertainment expenses complied with existing travel and entertainment policies and procedures. Opportunities exist to enhance and enforce existing guidelines.

We appreciate the courtesy and cooperation received from the management and staff of Procurement Management as part of this audit.



Appendix: Definition of Risks

Risk Level	Definition
Priority	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Management Review Committee (ACMRC). Priority findings reported to the ACMRC are defined as <i>“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.”</i>
High	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
Medium	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.