



Office of Internal Audit

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August 1, 2017

Dr. Richard Benson, President,
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of travel and entertainment, focusing on executive management, as part of our fiscal year 2017 Audit Plan, and the report is attached for your review.

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:

Ms. Deborah Reynolds, Executive Director, Procurement Management

Members of the UT Dallas Institutional Audit Committee:

External Members:

Mr. Gurshaman Baweja
Mr. Bill Keffler
Ms. Julie Knecht
Mr. Ed Montgomery
Dr. Hobson Wildenthal, Executive Vice President
Dr. Kyle Edgington, Vice President for Development and Alumni Relations
Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer
Mr. Frank Feagans, Vice President and Chief Information Officer
Dr. Gene Fitch, Vice President for Student Affairs
Dr. Calvin Jamison, Vice President for Administration
Mr. Rafael Martin, Interim Vice President for Research
Dr. Inga Musselman, Interim Provost
Mr. Terry Pankratz, Vice President for Budget and Finance
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

Audit Objective and Scope:

To ensure that travel and entertainment expenses comply with university policies and procedures regarding travel and entertainment, are properly authorized, and are appropriate based on the business unit's strategic and operating objectives. The audit scope covered all of FY 2016 and the first two quarters of FY 2017, and we primarily focused on executive travel and entertainment.

Conclusion:

Although most university travel and entertainment expenditures were compliant with university policies and procedures, opportunities exist to enhance and enforce existing guidelines.

The following is a summary of the audit recommendations by risk level.

Recommendation	Risk Level	Estimated Implementation Date
(1) Enhance University Guidelines to Strengthen Compliance	High	October 1, 2017
Responsible Vice President(s): Mr. Terry Pankratz, Vice President for Budget and Finance	Responsible Party: Ms. Deborah Reynolds, Executive Director for Procurement Management	
Staff Assigned to Audit: Ray Khan, Project Leader and Staff Auditor		

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Background

The Office of Procurement Management, reporting to the Vice President for Budget and Finance, is responsible for processing all travel and entertainment expenditures for the University. During fiscal year 2016 and the first two quarters of fiscal year 2017, UT Dallas travel expenditures totaled approximately \$6,949,221. Entertainment expenditures during this same period totaled approximately \$1,054,384.

The Travel Management section of the Procurement Management website¹ provides links to university policies and procedures related to travel in order to provide assistance to travelers and administrative staff to help ensure compliance with travel policies. Each employee is responsible for ensuring their travel and entertainment expenditures are in compliance with university policies and procedures and that the expenditures support the mission of the university. These expenditures must then be approved by the employee's supervisor before they are submitted to Procurement Management for processing.

The university implemented and transitioned to a new reimbursement process for business expense reimbursements, not including travel, around the midpoint of fiscal year 2016. This process allowed for employees to submit their request for reimbursement with supporting documentation electronically, which is routed to supervisors and cost center managers for approval before being reviewed by Procurement Management. A similar automated system is currently being developed by Procurement Management to handle the travel reimbursements for all employees.

Audit Objective

The objective of this audit was to ensure that travel and entertainment expenses comply with university policies and procedures regarding travel and entertainment, are properly authorized, and are appropriate based on the business unit's strategic and operating objectives.

Scope and Methodology

The scope of this audit was fiscal year 2016 through February 28, 2017, and our fieldwork concluded on June 19, 2017. We primarily focused on executive travel and entertainment². To satisfy our objectives, we performed the following:

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

² For the purpose of the audit, executives were identified as employees at the director level and above, including chairs. The President's expenses were excluded as the UT System Audit Office planned an audit of presidential travel and entertainment for FY17.

- Gained an understanding of travel and entertainment policies, procedures, and processes by reviewing applicable policies and procedures.
- Tested university travel and entertainment expenditures for compliance with UT Dallas policies and procedures, including proper authorization and appropriate documentation, and to ensure the expenditures were in line with the business unit's strategic and operating objectives

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.

Conclusion

Based on the audit work performed, we conclude that while travel and entertainment expenditures are primarily in compliance with university travel and entertainment, opportunities exist to enhance and enforce existing guidelines. Specific findings and recommendations are detailed below in the Audit Results and Management's Responses section of the report.

We appreciate the courtesy and cooperation received from the management and staff within all areas of the university as part of this audit.

Audit Results and Management’s Responses

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.” We have **no UT System Priority Findings** resulting from this audit.

Risk Level	Observation	Risk/Effect	Recommendation	Management’s Action Plan
High	<p>1. Enhance University Guidelines to Strengthen Compliance</p> <p>While the majority of transactions tested did comply with applicable university policies and procedures, opportunities were observed to enhance compliance with university travel and entertainment transactions. 35% of the transactions tested did not comply with UT Dallas policies and/or procedures. Generally, noncompliance with existing guidelines was due to the following:</p> <ul style="list-style-type: none"> Expenditures were not always being approved by a supervisor of the employee that incurred the expense. UT Dallas requires expenditures to be approved by an appropriate supervisor of the employee (Travel Expenses Policy³ and One Card Program User Guide⁴). Travel and entertainment expenditures were noted that exceeded the thresholds of 	<p>Noncompliance could result in reputational risks to the university as well as inefficient use of funds during periods of tight funding.</p>	<p>Controls around travel and entertainment expenditures should be enhanced to ensure university funds are only spent on approved, allowable, and appropriate expenses and that university policies and procedures are being followed related to these expenditures.</p> <p>Additionally, policies and procedures around travel and entertainment expenditures should be strengthened to specifically identify allowable travel and entertainment</p>	<p>Management’s Response and Action Plan: Procurement Management will strengthen travel and expense audit processes to include that a Supervisor or other appropriate relational manager approve expenses prior to payment. This process will include re-routing or otherwise directing the requested reimbursement to others at the Dean, VP, or Fiscal Officer level.</p> <p>AskYODA and Travel Expenses Policy are being updated to clarify that the \$75 maximum is a guideline and circumstances may warrant going over that amount. The Dean, VP, or Fiscal Officers will determine if the amount requested over \$75 is</p>

³ <https://policy.utdallas.edu/utdbp3104>

⁴ <https://www.utdallas.edu/finance/training/docs/One-Card-Guide-updated-05.02.2016.pdf>

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
	<p>allowable per diem and the \$75 entertainment limit. Entertainment guidelines from AskYODA⁵ and the Travel Expenses Policy define allowable amounts of university funds that can be spent on university travel and entertainment activities. Additionally, instances existed when the amount of alcohol purchased exceeded the food costs for all participants for entertainment reimbursements.</p> <ul style="list-style-type: none"> Entertainment expenditures existed that could not be tied to the strategic or operational objectives of the department sustaining the expenditure. Guidelines⁶ outline when entertainment expenditures are allowable; however, 16 instances of employee-only business meals, including spouses⁷, for approximately \$1,107 were noted. The business purposes for these meals were not in line with the guidelines for entertainment expenditures. Additionally, approximately \$51 was noted to be reimbursed for mileage associated with these employee-only business meals. 		<p>expenditures for the university.</p>	<p>reasonable and provide approval.</p> <p>Estimated Date of Implementation: October 1, 2017</p> <p>Person Responsible for Implementation: Debbie Reynolds, Executive Director, Procurement Management</p>

⁵ <http://utdallas.parature.com/link/portal/30075/30104/Article/1480/What-are-UTD-s-entertainment-reimbursement-limits>

⁶ <http://utdallas.parature.com/link/portal/30075/30104/Article/684/What-are-allowable-entertainment-expenses>

⁷ http://www.utdallas.edu/finance/training/docs/TravelandExpense_ResourceGuide_UTDallas.pdf

Appendix 1: Priority Findings and Risk Matrix

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.