

**UT SOUTHWESTERN**  
MEDICAL CENTER

Daniel K. Podolsky, M.D.  
President  
Philip O'Bryan Montgomery, Jr., M.D. Distinguished  
Presidential Chair in Academic Administration

Professor of Internal Medicine  
Doris and Bryan Wildenthal Distinguished  
Chair in Medical Science

November 29, 2012

Kenneth Shine, M.D.  
Executive Vice Chancellor for Health Affairs  
The University of Texas System  
601 Colorado Street  
Austin, Texas 78701

Dear Dr. Shine:

Enclosed for your information is a copy of the University of Texas Southwestern Medical Center Internal Audit Report 13:03 President's Travel, Entertainment and Gift Expenditures.

I concur with the auditor's recommendations and support implementation of these recommendations.

Sincerely,



Daniel K. Podolsky, M.D.

Enclosure

c: Arnim Dontes, Executive Vice President for Business Affairs  
Michael Peppers, UT System Interim Audit Director  
Debbie McKibben, PwC Internal Audit

**University of Texas Southwestern Medical Center**

**Internal Audit Report 13:03  
President's Travel, Entertainment and Gift Expenditures**



**November 28, 2012**

Office of Internal Audit  
5323 Harry Hines Boulevard  
Dallas, Texas 75390-9017  
(214) 648-6106



**University of Texas Southwestern Medical Center  
Internal Audit Report 13:03  
President's Travel, Entertainment and Gift Expenditures  
FY 2012**

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**AUDIT REPORT  
November 28, 2012**

Daniel K. Podolsky, M.D., President  
University of Texas Southwestern Medical Center  
5323 Harry Hines Boulevard, MC 9002  
Dallas, Texas 75390-9002

Dear Dr. Podolsky:

The University of Texas Southwestern Medical Center (Medical Center) Office of Internal Audit has completed its President's Travel, Entertainment and Gift Expenditures audit. In addition, procedures were performed on the Medical Center's wine inventory as part of this audit.

**Executive Summary**

Travel, Entertainment and Gift Expenditures

No transactional exceptions were noted in our testing related to travel, entertainment and gift expenditures paid on behalf of or reimbursed to the President and his spouse during fiscal year (FY) 2012 as defined by University of Texas System (UTS) Board of Regents' (BOR) Rules and Regulations Series 20205 and UT System Policy 120 for spousal travel. Additionally, expenditures related to travel, entertainment and gifts were in accordance with Medical Center existing guidelines, policies, procedures and regulations. Quarterly reports for fiscal year 2012 were submitted to the UTS Executive Vice Chancellor for Health Affairs in a timely manner and all transactions tested were appropriately included. There were no housing expenditures. All prior audit recommendations have been implemented.

As a result of this audit, the following observations and recommendations are made relative to PeopleSoft functionality opportunities and policy and procedure creation:

PeopleSoft Functionality--Travel Authorization (Encumbrance)/Approval

1. The President is currently the only person at the Medical Center not required to utilize the PeopleSoft Travel Authorization Form. The use of this PeopleSoft functionality aids with the encumbrances of travel expenses as well as budgetary monitoring. We recommend the President's Office commence usage of this system functionality for this activity.

We also identified another opportunity for PeopleSoft within the expense reimbursement process. While current approval procedures for the President's reimbursements were performed via e-mail by the Executive Vice President for Business Affairs, leveraging PeopleSoft technology for the routing of expense reimbursements for approval in lieu of using e-mail can enhance efficiency further. Through this report, a recommendation is also made to the System to consider modifying BOR 20205 to reflect greater utilization of technology in this approval process.

#### Business/Entertainment Policy

2. While the Accounting Department has created a summary matrix for departmental expenditures, a formal business/entertainment policy does not exist within the Medical Center's Handbook of Operating Procedures (HOP). Currently the Medical Center's Accounting Department is working on the construction of this policy and will collaborate with Policy Administration to finalize in the HOP.

#### Wine Inventory

3. Controls were not effective to manage wine inventory. The value was not recorded on the general ledger and there were no defined procedures established to protect this asset. When a high level inventory count was performed, a 17% difference existed between the physical count and the inventory logs. (The last inventory was conducted in 2009.) Finally, accountability for the inventory's supply and activity was not defined at the time the audit was commenced. The Executive Vice President for Business Affairs (EVPBA) was recently given responsibility for the wine inventory. The EVPBA will 1) determine value of the inventory; 2) record on general ledger; 3) develop replenishment/withdrawal/return policies and procedures; and 4) assign physical access responsibilities.

We appreciate and thank the President's Office, Accounting, Information Resources, Policy Office and Business Affairs for their assistance and support during this audit.

## Detailed Results

Individual results and recommendations are discussed below:

### President's Travel, Entertainment and Gift Expenditures

#### 1. Utilization of PeopleSoft for Travel Authorization Functionality and Approval Functionality

The President of the Medical Center is currently the only person not required to utilize PeopleSoft's Travel Authorization Form prior to conducting travel. Travel Authorization Forms are used by the Medical Center primarily to document travel justification and encumber expenses which helps prevent overspending of budgeted funds. In addition, the Travel Authorization Form has the following benefits:

- Expedites completion of the of the expense reports;
- Allows encumbrances to be spread amongst multiple departments sharing costs;
- Increases awareness of all expenses related to a single trip, including direct billed and prepaid; and
- Documents vacation time scheduled with the trip.

The General Accounting Department stated that this exemption from standard process had been determined some time ago, but it was not documented into policy that the President would be exempt. This exemption would be carried forward into the PeopleSoft system when implemented.

#### Recommendation

The President's Office (Director or Assistant Director) should utilize PeopleSoft to create a Travel Authorization Form for travel prior to booking.

#### Management Response

Implementation Status: The President's Office will review the logistics of using PeopleSoft to record UTSW paid travel for the President and will communicate plans to Internal Audit.

Implementation Date: December 31, 2012

Responsible Personnel:

Director, Office of the President

While not an exception, we also identified another opportunity for PeopleSoft within the expense reimbursement process. Current approval procedures for the President's reimbursements were performed via e-mail by the Executive Vice President for Business Affairs. Leveraging PeopleSoft technology for the routing of expense reimbursements for approval in lieu of using e-mail can enhance efficiency further. Through this report, a recommendation is also made to the System to consider

modifying BOR 20205 to reflect greater utilization of technology for this approval process.

## 2. Business/Entertainment Expenses Reimbursement Policy

Per the Director for Policy Administration, the Medical Center does not have a policy within the HOP for business/entertainment expense reimbursements. However, the Accounting Department does have a matrix that has been the guide for various types of expenses, including entertainment. Policies help guide institutional employees in carrying out Medical Center business in a manner that is in line with its goals and objectives. Currently, the Accounting Department is in the process of obtaining information from other Universities and Medical Institutions to provide guidance in the creation of an overall business/entertainment expense policy for the Medical Center which will become part of the HOP.

### Recommendation

We commend the Accounting Department in their proactive response to the creation of a business/entertainment expense reimbursement policy. We recommend that they continue with this process and work in collaboration with the Director of Policy Administration toward the final creation and implementation of the policy. We also recommend that this policy contain at least the following:

- Clear identification of when reimbursement of business/entertainment expenses will be allowable and when it will not be allowed;
- Responsible party for approval of expenses;
- Proper documentation required for reimbursement requests;
- Where to obtain procedures on submitting expenses for reimbursement;
- A statement on the reimbursement for alcoholic beverages (when it is allowed and when it is not allowed); and
- How different funding sources play a role in the allowability of reimbursing business/entertainment expenses.

### Management Response

Implementation Status: The Accounting Department will continue with its progress to research and draft the policy for submission to Policy Administration for final approval.

Implementation Dates:

Creation of Policy	January 31, 2013
Policy Approval	July 31, 2013

Responsible Personnel:

Assistant Vice President, Accounting and Post Awards (Creation of policy)  
Director, Policy Administration (Implementation and approval through Policy Committee)

## Wine Inventory

### 3. Wine Inventory Controls

The Medical Center maintains an inventory of wine for events held on campus and for gifting to donors. The inventory is stored on the second floor of the McDermott Administrative Building and the eighth floor of the Seay Biomedical Building. While performing our review of the inventory procedures, we noted the following exceptions:

- The log books kept in the storage areas and designed to track the activity of the wine inventory were not utilized consistently;
- Regular reconciliations of the wine inventory had not been performed since 2009;
- Our inventory count of the wine storage areas noted the following:
  - For storage area B1.108, the count was 37 wine bottles less than recorded on the room log.
  - For storage area NC8.305, the count was 155 more wine bottles than recorded on the log. Additionally, the count showed 25 liquor bottles not on the log;
- Procedures for the storage area operations are not established;
- At the time the audit commenced, the responsibility for the wine inventory was not clear; and
- The value of the inventory was not recorded on the general ledger.

#### Recommendation

The Executive Vice President for Business Affairs Office has recently accepted the responsibility for the wine inventory. In order to strengthen the controls, policies and procedures should be created for any additions, removals and returns as well as for overall physical access to the Medical Center wine storage areas. The procedures should contain the following:

- Accounting for replenishment, utilization and returns;
- Procedures for granting access to the storage areas and specific individuals with authority to access and grant access;
- Steps for documenting additions, removals and returns to the storage areas; and
- Routine inventory procedures.

#### Management Response

Implementation Status: The Executive Vice President for Business Affairs will 1) determine value of the inventory; 2) record on general ledger; 3) develop replenishment/withdrawal policies and procedures; and 4) assign physical access responsibilities.

Implementation Date: December 31, 2012

Responsible Personnel:

Executive Vice President for Business Affairs

**Conclusion**

Travel, Entertainment and Gift Expenditures

No transactional exceptions were noted in our testing related to expenditures paid on behalf of or reimbursed to the President and his spouse as defined by BOR Rules and Regulations, Series 20205, UT System Policy 120 and The Medical Center's policies. Additional modifications to processes to leverage technology for utilization of PeopleSoft prior to travel (for encumbrances) and utilizing PeopleSoft in the approval process were recommended. The Medical Center is in process of formalizing its travel and entertainment policy.

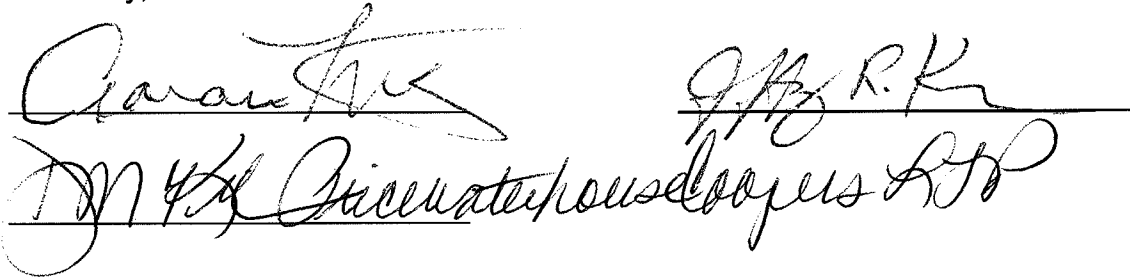
Wine Inventory

Controls were not effective at the time of our audit. However, the Executive Vice President for Business Affairs has assumed the responsibility for the inventory and is in the process of creating procedures and responsibilities as appropriate.

Aaron Munoz, CIA, CGAP  
Jeffrey Kromer, CPA, CISA, CBA, CFSA  
Debbie McKibben

- Senior Internal Audit  
- Supervisor of Internal Audit  
-PwC Internal Audit

Sincerely,



Cc: Annim Dontes, Executive Vice President for Business Affairs  
Rita Kroger, Director for the President's Office  
Kay Hardgrave, CPA, CIA Assistant Director for the President's Office  
Christine Tata, Director for the Policy Office  
Sharon Leary, CPA, CIA, Assistant Vice President for Accounting and Post Awards



## Appendix

### Background

The President of UT Southwestern Medical Center is reimbursed for travel and entertainment expenses incurred as part of his official duties. The Medical Center is required by the Board of Regents' Rules and Regulations (BOR), Series 20205 (*Expenditures for Travel, Entertainment, and Housing by Chief Administrators*) to submit quarterly reports to the Executive Vice Chancellor for Business Affairs detailing travel, entertainment, and housing expenditures exceeding \$100 that are reimbursed to the president, the president's spouse or directly to a vendor on the president's and spouse's behalf. Guidance for the president's travel and entertainment expenses is also provided by University of Texas System policy (UTS120 related to spousal travel) as well as the Medical Center's policies and procedures. The BOR, Series 20205 also requires that each institution's Internal Audit Office perform and complete an audit of the President's travel and entertainment expenses within 90 days of the end of each fiscal year.

### Audit Objectives

The primary objective of this audit was to provide the UTS Board of Regents reasonable assurance that there are adequate and effective controls over the President's travel and entertainment expenses that ensure the following:

- Reliability and integrity of financial and operational information
  - Travel, entertainment and gift expenditures that the Office of President has directly paid to or on the behalf of an individual are reasonable and made in accordance with appropriate policies and guidelines.
  - Quarterly travel and entertainment reports are complete, accurate, and submitted to UTS in a timely manner.
- Compliance with law, regulations, and contracts
  - Expenditures are in compliance with all applicable Medical Center policies and procedures.
  - Expenses meet requirements of UTS Board of Regents' *Rules and Regulations*, Series 20205.
  - UT System Policy 120
- Effectiveness and efficiency of operations and programs
  - Current President Office expenditure processes, guidelines and policies are appropriate.
- Effectiveness of the Medical Center's wine inventory monitoring procedures
  - Current procedures for the documentation of extraction, addition and return of inventory are appropriate.

### Scope and Methodology

Our audit covered the President's travel and entertainment expenses for the period of September 1, 2011 to August 31, 2012. This is a UTS required audit from the fiscal year 2013 Medical Center audit plan. Our examination was conducted according to guidelines set forth by the University of Texas Systems Policy 129 "Internal Audit Activities", the Regents Rules and Regulations and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Procedures conducted to satisfy the audit objectives to ensure compliance with BOR, UT System and Medical Center regulations included the following:

- Reviewed the current travel and entertainment policies and procedures of the President's Office;
- Reviewed documentation of 70% of the President's travel expenses for fiscal year 2012;
- Reviewed documentation of 30% of entertainment expenditures by or on behalf of the President;
- Reviewed documentation of 38% of gift expenditures made on the President's behalf;
- Performed a full count of bottles of the Medical Center wine inventory and compared it to the logs maintained in the wine storage areas;
- Validated accuracy and completeness of FY12's President's Quarterly Report on Travel and Entertainment