

23-104 Expenditure Review

EXECUTIVE SUMMARY

Auditing & Advisory Services (A&AS) has completed an assurance engagement of non-salary expenditure review. This engagement was performed at the request of the UTHealth Houston Audit Committee and was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Background

Purchases of goods and services normally required for the daily operation of the department should be processed through the procurement process. Non-purchase order (Non-PO) invoice/voucher transactions are utilized to facilitate certain payments where direct disbursement of funds is allowed and prior encumbering of funds is not necessary. Employee travel and expense reimbursements are processed through PeopleSoft FMS Non-PO or Coupa expense transactions.

Objectives/Scope

Our objective was to determine whether controls around non-salary expenditures are adequate and functioning as intended. Specifically, to determine if:

- Non-salary expenditures are appropriate, properly approved and made according to policy.
- Non-POs are appropriate, properly approved and made according to policy.
- Employee travel and/or reimbursements are appropriate, properly approved and made following policy.

Scope Period

UT Physicians (UTP) and UTHealth Houston (UTHSC-H) non-salary expenditures from September 1, 2019 to March 31, 2023.

Conclusion

Overall, controls around non-salary expenditures are adequate and functioning as intended. We noted the following opportunities for improvement:

#	Observation Summary	Risk	Risk Rating
1	UTHSC-H policy and procedures related to expense reimbursement and official functions are not consistently followed.	Noncompliance with institutional policy and procedures. Reimbursement for unauthorized or insufficiently documented expenses.	Medium

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2	The requisition /PO process is not consistently followed for recurring/routine services. In addition, UTP purchasing policies and procedures do not address the use of non-POs.	Inefficient budget management due to funds not being encumbered.	Medium
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OBSERVATIONS & MANAGEMENT RESPONSES

#1 - Expense Reimbursements

Cause

UTHSC-H policy and procedures related to expense reimbursement and official functions are not consistently followed.

Risk

- Noncompliance with UTHSC-H policy or procedures.
- Reimbursement for unauthorized or insufficiently documented expenses.
- Inefficient budget management due to funds not being encumbered.

Condition

We selected a sample of 25 employee reimbursement vouchers with travel and non-travel requests. The vouchers, totaling \$109,890, were reviewed for compliance with UTHSC-H's policies and procedures. The following were noted:

- 4 vouchers for recurring/routine expenditures (marketing, advertising, and clinic corridor signs), totaling approximately \$17,873, were paid directly to the vendor by employees rather than through the requisition/PO process. Of which, two of the four were for UTP expenditures totaling \$10,345.
- 2 vouchers do not have adequate documentation within Coupa to fully support the expenditure.
- 2 vouchers do not have appropriate level of approval or approval was obtained after travel or an event has occurred when policy required preapproval.
- 2 vouchers showed inaccurate or inconsistent account code.
- 1 voucher submitted more than 60 days after the transaction date without an approved Late Submission Exception Memo.

In addition, we noted current practice differs from written policy and procedures as follows:

- 1 voucher for international travel to Canada did not have appropriate level of approval. Management informed us travel to Canada is considered domestic; however, Employee Reimbursement Team & Disbursements department informed us our policy and procedures do not specify whether travel to Canada is considered domestic.
- 10 vouchers showed official function guidelines are not consistently followed including:
 - Comprehensive list of attendees present at the event and their institutional affiliation was not included. Management informed us informal processes do not require a list if the number of attendees exceeds ten.
 - Expense over \$2,500 was not processed on a PO. Management informed us informal processes only require a PO for outside vendor payments.
 - Official functions greater than \$2,500 or exceptions to policy did not have Executive Office approval documented in Coupa.

Criteria

Supply Chain Management (SCM) Procedures states the use of non-PO invoice/vouchers may be appropriate, "if the goods or services your department needs are non-routine or non-recurrent in nature." In addition, the *UTHSC-H Expense Reimbursement Guide* requires purchases of goods and services required for the daily operation of the department to be processed through the Procurement process. Any exceptions to established procedures must be justified in writing.

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SCM Payment Procedures Handbook requires Non-PO vouchers entries by departments, not processed through the Coupa workflow, to be entered directly in Peoplesoft FMS with appropriate original support documents to the Non-PO voucher request attached using the OnBase scan and link process. This includes the user obtaining paper form approvals.

SCM Travel Guide requires the completion of the Request for Travel Authorization within Coupa prior to booking travel and/or airfare. The expense report must be submitted within 60 days of travel and should not exceed the approved request for travel amount. Additionally, meals included with the registration fee are not reimbursable. In addition, for *Foreign Travel* it states, "International travel up to 29 days (including Canada and Mexico if under travel warning) must be approved by the Dean of the school. Dean or designated group must be manually inserted within the Coupa Preapproval and the Coupa Expense report workflow."

HOOP 12 *Official Function Expenditures (Entertainment)* and UTP Procedure 100.020 *Official Function Expenditures (Entertainment)* requires, amongst other items:

- Reimbursement of official function expenditures must include names of individuals present at the function and their institutional affiliations.
- Reimbursement must include individually itemized invoice or receipt.

SCM Official Functions guidelines requires the following:

- Amounts in excess of event limits or that exceed \$2,500 require prior approval of COO/CFO, President or designee, in addition to reporting line approval.
- Secondary approvals and justification are required for official functions with actual costs that exceed policy referenced on the Policy Guidelines Matrix.
- Official functions greater than \$2,500 should be processed on a purchase order.
- The form will not be accepted with any handwritten corrections, white outs, etc.

Recommendation(s)

1. Develop and implement a process to ensure compliance with expense reimbursement and official functions guidelines.
2. Review and update so policies, procedures, and current practices align.

Rating

Medium

Management Response

Management has reviewed the expense reimbursements internal audit report and proposes updates to the following: SCM website, travel and expense reimbursement guide, official function form, UTH/UTP supply chain procedures, and McGovern Medical procedures to clarify process and reduce ambiguity. Topics to include: allowable reimbursable items, timely submission of reimbursements, international travel (Canada & Mexico), request for travel authorization approval, listing of official function attendees, official function hotel events, and official function approval process.

Responsible Parties

- Dr. Nancy McNiel, Senior Associate Dean for Administrative Affairs at the Medical School
- Charles Hendricks, Director Payment Services

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- Nicole Brown, Senior Administrative Manager
- Cynthia Huehlefeld, Associate Vice President Business Ops Practice Plan
- Eric Williams, Assistant Vice President Supply Chain Management

Implementation Date

June 15, 2024

#2 – Non-PO Vouchers
<p>Cause The requisition/PO process is not consistently followed for recurring/routine services. In addition, UTP purchasing policies and procedures do not address the use of non-POs.</p> <p>Risk Inefficient budget management due to funds not being encumbered.</p> <p>Condition We obtained spend activity from September 1, 2019 to March 31, 2023 and selected a sample of 25 non-PO vouchers across ten vendors with high-dollar spend, with total spend of approximately \$7,639,488 (UTHSC-H \$1,404,528 and UTP \$6,234,960). The vouchers selected, totaling \$634,577, were reviewed for compliance with UTHSC-H’s purchasing policies and procedures. The following were noted:</p> <ul style="list-style-type: none"> • 8 purchases across three vendors with recurring/routine expenditures totaling approximately \$44,981 are subject to the requisition/PO process. Total spend for the 3 vendors was \$851,558. • 9 purchases across three vendors totaling \$384,147 from UTP. Total spend for the 3 vendors was \$2,655,412. <p>Management informed us UTP is exempt from State Procurement rules; however, best practice would require all purchases be procured through the requisition/PO process. We noted, UTP issues purchase orders for many services.</p> <p>Criteria <i>SCM Procedures</i> states the use of non-PO invoice/vouchers may be appropriate, “if the goods or services your department needs are non-routine or non-recurrent in nature. If the goods or services your department needs to buy are for the normal day-to-day operation of your department and are readily available in the marketplace, you will purchase them using a requisition through the procurement process. State law requires that the funds be encumbered utilizing a UTHSC-H purchase order prior to purchase.”</p>
<p>Recommendation(s)</p> <ol style="list-style-type: none"> 1. For UTHSC- H perform a review of all vendors paid using non-POs and evaluate for compliance with SCM guidelines or contracting requirements. For goods or services that are identified as routine or recurring in nature, work with SCM to establish a procurement process using a purchase order. 2. For UTP, develop and implement a consistent process for issuing PO’s. 3. Develop and implement a process to ensure purchasing policies and procedures are consistently followed. <p>Rating Medium</p>
<p>Management Response Management has reviewed the non-po voucher internal audit report and proposes the following: We will ensure that recurring services and independent contractors paid via non-po vouchers that do not</p>

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have an approved exception are processed with an executed unauthorized purchase justification form. The form will be attached to the file. If there is an approved exception, the exception will be attached to the file. Reports will be created to identify these unauthorized procurements, and the departments will be educated on the correct process. Discussions will be held with UTP regarding using the unauthorized purchase justification form. Procedures will be updated for UTH and UTP to help clarify processes and guidelines for processing non-po vouchers.


Responsible Parties

- Charles Hendricks, Director Payment Services
- Nicole Brown, Senior Administrative Manager
- Cynthia Huehlefeld, Associate Vice President Business Ops Practice Plan
- Eric Williams, Assistant Vice President Supply Chain Management

Implementation Date

June 15, 2024

We would like to thank the Supply Chain Management, McGovern Medical School, and UTP staff and management who assisted us during the engagement.



Daniel G. Sherman, MBA, CPA, CIA
Vice President & Chief Audit Officer

OBSERVATION RATINGS

Priority	An issue that, if not addressed timely, has a high probability to directly impact achievement of a strategic or important operational objective of UTHealth Houston or the UT System as a whole.
High	An issue considered to have a medium to high probability of adverse effects to a significant office or business process or to UTHealth Houston as a whole.
Medium	An issue considered to have a low to medium probability of adverse effects to an office or business process or to UTHealth Houston as a whole.
Low	An issue considered to have minimal probability of adverse effects to an office or business process or to UTHealth Houston as a whole.

NUMBER OF PRIORITY OBSERVATIONS REPORTED TO UT SYSTEM

None

MAPPING TO A&AS FY 2023 RISK ASSESSMENT

Reference	Risk
FIN 103	Employee reimbursement travel (ERT) process not consistently followed as travel increases after Covid.
FIN 104	Non-PO vouchers are used inappropriately leading to a higher risk that expenditures do not have adequate approval.

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DATA ANALYTICS UTILIZED

Review of trends and/or anomalies in IDEA.

ENGAGEMENT TEAM

VP/CAO - Daniel G. Sherman, MBA, CPA, CIA

Supervisor - Kathy Tran, CIA, CISA, CISSP, CFE, CGAP

Lead - Chandra Jones, CPA, CIA, CHIAP®

Staff - Casandra Wiley, CIA

END OF FIELDWORK DATE

January 17, 2024

ISSUE DATE

February 28, 2024

REPORT DISTRIBUTION

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