

**UNIVERSITY PRESIDENT’S TRAVEL, ENTERTAINMENT,
AND OTHER EXPENSES**

THE UNIVERSITY OF NEW MEXICO

**Report 2013-12
October 15, 2013**



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ABBREVIATIONS

University.....	The University of New Mexico
Audit Committee.....	Board of Regents' Audit Committee
UAPPM.....	University Administrative Policies and Procedures Manual
I&G	Instruction and General

EXECUTIVE SUMMARY

At the request of the University of New Mexico's (University) Board of Regents' Audit Committee (Audit Committee), the Internal Audit Department conducted an audit of the University President's travel and entertainment expenses for the period June 1, 2012 through June 30, 2013.

Internal Audit tested the President's and President's spouse's travel, entertainment, other expenses, and reimbursed expenses of \$143,786. Internal Audit also tested the University of New Mexico Foundation discretionary fund expenses of \$15,794 paid on behalf of the University President.

RECOMMENDATIONS

1. As required by the President's employment agreement, the Board of Regents' Audit Committee should establish standards and specific policies for determining the President's expenses.
2. The President's Office should utilize the Spouse Expenses Documentation Form to document the bona fide business purpose of all allowable spousal expenses.

CONCLUSION

In the audit of the President's travel and entertainment expenses, the Internal Audit Department found the expenses are reasonable, allowable, and generally in accordance with the University Administrative Policies and Procedures Manual (UAPPM) and the President's employment agreement with the exception of two recommendations.

INTRODUCTION

BACKGROUND

The University pays the reasonable cost of all official travel and entertainment expenses incurred by the President in the performance of his duties. These duties may include: hosting University events; attending seminars, educational conferences, conventions, and meetings of non-profit boards on which he/she may serve; other professional growth activities; and, other meetings to advance the interest of the University. The University encourages the President's spouse to accompany the President at events and to attend events separately as a representative of the University. The University also pays for the spouse's travel.

The President also has available a reasonable discretionary fund from private funds raised by the University of New Mexico Foundation for such miscellaneous expenses as retirement or recognition gifts, and purchases of tables sponsored by community organizations.

PURPOSE

To determine if the President's and President's spouse's travel and entertainment expenses are allowable and reasonable expenses in accordance with the University Administrative Policies and Procedures Manual and the University President's employment agreement.

SCOPE

The audit period is from June 1, 2012 through June 30, 2013. The scope of the audit was limited to 100% review of the travel and entertainment expenses incurred by the President and President's spouse and 100% of all of their expenses reimbursed. Internal Audit also reviewed 100% of discretionary fund expenses paid and reported by the University of New Mexico Foundation.

The summary of the travel, entertainment, and other expenses for the President and President's spouse is presented below:

Travel and Entertainment and Reimbursed Expenses for the Period June 1, 2012 through June 30, 2013			
Description	University President and Spouse	University Events, Business Meetings*	Total
Travel Expenses	\$ 40,406	--	\$ 40,406
Business Meals	--	\$ 59,624	59,624
Moving Expenses	29,028	--	29,028
Conference Expenses	2,320	--	2,320
Rental Fees	--	2,922	2,922
Insurance Premiums	8,367	--	8,367
Supply Fees	--	1,119	1,119
Total Expenses	\$ 80,121	\$ 63,665	\$ 143,786

*University Events and Business Meeting amounts include expenditures for food, beverages, rental, and supply fees at University-wide functions and receptions hosted by the UNM President for new faculty, retirees, "Hanging of the Greens," honoring the Regents' scholars, football home and homecoming games, receptions for the congressional delegates, University strategic planning and advance meetings, budget committee meetings, executive team meetings, and interim Provost search committee meetings, etc.

The summary of University of New Mexico Foundation discretionary funds paid on behalf of the President for the period reviewed is presented below:

University of New Mexico Foundation expenses from June 1, 2012 through June 30, 2013	
Description	Total
Business Meals	\$ 9,824
Reception Tables	4,600
Recognition Gifts	1,197
Rental Fees	173
Total Expenses	\$ 15,794

The summary of total expenses from the President's Office operating ledger is presented below:

University of New Mexico President Office Operating Ledger July 1, 2012 through June 30, 2013			
Account Description	Budget	Actual	Variance Favorable/ (Unfavorable)
Salaries and Benefits	\$ 1,523,758	\$ 1,487,647	\$ 36,111
Scholarships and Awards	24,500	640	23,860
Other	416,030	175,982	240,048
Supplies	265,941	281,281	(15,340)
Travel/Entertainment	252,166	128,826	123,340
Services and Fees	375,125	450,229	(75,104)
Totals	\$ 2,857,520	\$ 2,524,605	\$ 332,915

AUDIT PROCEDURES

Our detailed audit procedures applied in test work of the President's and President's spouse's expenses included the following:

- Review the University Administrative Policies and Procedures Manual and the President's employment agreement for travel and entertainment requirements;
- Review expenses to ensure expenses are authorized, approved, reasonable, allowable, and charged to the correct account;
- Analyze all expense reimbursements paid to the President and/or the President's spouse;
- Review all direct payments to vendors related to the President's/spouse's travel and entertainment, such as airline tickets, hotels, catering services, etc.;
- Review all charges to the department's purchasing cards for the President's/spouse's travel and entertainment related expenses, including the monthly reconciliation of the purchasing card transactions; and
- Contact the external auditors and determine if they audited such expenditures, and for their risk assessment and their conclusions for such disbursements, if any.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

University President's Policy Implementation

The University President's employment agreement states that the Audit Committee will establish standards for determining the reasonableness of all of the President's expenses. Currently, the University President follows University policies and the President's employment agreement for reasonableness of his expenses; specific standards and related policies have not been set.

Recommendation 1

As required by the President's employment agreement, the Board of Regents' Audit Committee should establish standards and specific policies for determining the President's expenses. A proposed policy related to the President's travel, entertainment, and other expense is detailed in Appendix I and Appendix II for the Audit Committee's approval.

Response from the Board of Regents' Audit Committee:

Action Items
<i>Targeted Completion Date: October 31, 2013</i>
<i>Assigned to: UNM Board of Regents' Audit Committee</i>
<i>Corrective Action Planned: We concur. The Board of Regents will work with the UNM Policy Office to prepare a University President policy.</i>

President's Spouse's Expenses

Certain spousal travel and non-travel expenses are allowed under the President's employment agreement. In order to exclude spousal expenses from taxable income, they must meet the following IRS guidance:

- Spouse's presence must have a bona fide business purpose;
- Bona fide business purpose is documented with specific business activities; and
- Expenses can be substantiated.

The University did not have a process in place for the President's Office to clearly document the bona fide business purpose or activity for spousal expenses, as required by the IRS guidance.

Recommendation 2

The President's Office should utilize the Spouse Expenses Documentation Form in Appendix III to document the bona fide business purpose of all allowable spousal expenses. They should submit the form with applicable expense request to UNM Unrestricted Accounting for review and determination.

Response from the University President

Action Items
<i>Targeted Completion Date: August 1, 2013</i>
<i>Assigned to: Administrative Officer, President's Office</i>
<i>Corrective Action Planned: We concur. We have developed the Spouse Expenses Documentation Form for our office and we are already using it as of August 1, 2013.</i>

APPROVALS



Manu Patel, CPA
Director, Internal Audit Department

Approved for Publication



Chair, Audit Committee

Appendix I: REGENTS' POLICY MANUAL - SECTION 3.8: BENEFITS OF THE UNIVERSITY PRESIDENT

Applicability

This policy applies to the University President and spouse.

Policy

The University President is eligible to receive the same benefits provided by policy for all other University employees, including life insurance, health and accident insurance, retirement, and tuition waivers. The Board of Regents may further authorize supplemental life insurance, deferred compensation, or other salary supplements as part of the Regents' goal to maintain peer equity in the University President's compensation.

If expressly authorized by the Regents in furtherance of the University President's responsibilities, additional benefits such as sabbatical privileges, leaves of absence, individual professional association memberships, club memberships and dues may be provided for use in carrying out the role of University President.

The terms of the University President's compensation and benefits package are set forth in an employment agreement between the University President and the Regents. In the event of a conflict between the employment agreement and the provisions of this policy, the employment agreement governs.

Term Life Insurance

The University pays the premiums on a term life insurance policy for the University President. The employment agreement between the University President and the Regents specifies that the University must be named as a partial beneficiary under the policy. In the event that the University is the owner of the policy, the premium cost for the percentage of the policy for which the University is named as a beneficiary would not be included in the taxable compensation of the University President.

Automobile Use

The University President may receive an automobile allowance, payable monthly for the reimbursement of the use of personal vehicles for University purposes. The University will reimburse the University President's business-related gasoline expenses. The automobile allowance shall be set by a vote of the Board of Regents and included in the University President's contract.

Travel

The University President will receive reimbursement for reasonable travel, hotel, and other proper expenses for official University business, in accordance with UAP Policy 4030 (“Travel”). The Board of Regents will approve any requests for exceptions to the requirements of UAP 4030 on a case-by-case basis.

Professional Growth

The University will pay or reimburse the University President for reasonable expenses incurred to attend educational conferences, conventions, courses, seminars, and other similar professional growth activities.

Official Residence

The University President’s official residence is located at 1901 Roma NE on the University campus. As required by the Board of Regents as a condition of employment, the residence will be used for work-related purposes, both administrative and social. The University will provide repair and maintenance services, utilities (electricity, gas, water, sewer, and telephone service) for the residence. Any remodeling or major repairs in excess of twenty-thousand dollars (\$20,000) must be reviewed by the Board of Regents’ Finance and Facilities Committee and approved by the full Board.

In the public parts of the official residence, the University President shall entertain visiting dignitaries and community leaders, hold receptions, meetings, fundraisers, or otherwise host a variety of events for mixed business and social purposes benefiting the interests of the University. In such instances, cooking, catering, and housekeeping services may be provided or otherwise paid for by the University at the University President's request.

Discretionary Funds

In order to assist the University President in carrying out presidential duties, the University President will have a reasonable discretionary fund made available from private funds raised by the UNM Foundation for such miscellaneous expenses as retirement or recognition gifts, purchase of tables at receptions sponsored by community organizations, and other similar expenses judged appropriate for the benefit of the University.

Alcoholic Beverages

The reimbursement of the purchase of alcoholic beverages is prohibited except when incurred in the performance of University business, such as a hospitality event for guests of the University. Payment or reimbursement for such purchases of alcoholic beverages shall be made with University of New Mexico Foundation funds. The University President is expected to comply with UAP Policy 4000 (“Allowable and Unallowable Expenditures”).

Spousal Benefits

The Regents recognize that the University President's spouse is expected to participate in the activities and operations of the University. The spouse often makes a large and uncompensated contribution to the affairs of the University. In such cases, the capacity to represent and often substitute for the University President at functions within the University and the community, and individual involvement in University events, fund raising, alumni and other activities, can provide an important function for the University.

Actual expenses for travel, lodging, and meals for the spouse may be paid by the University when the spouse participates in meetings, conferences, and workshops specifically related to the presidential role, and when participating in official functions such as alumni development, fundraising, and University advancement. Any University related travel expenses incurred will be reimbursed according to UAP 4030 ("Travel") and other established policies and procedures.

When the spouse accompanies the University President on trips and does not have a *bona fide* business purpose or has no specific and significant involvement in the business activity, the amount paid for these purposes must be included in the President's gross income.

Annual Audit Report

Internal Audit shall prepare and submit to the Board of Regents an annual audit report detailing the University President's travel and entertainment expenses.

Appendix II: Taxes Related to the Expenses of the University President's Spouse

The Internal Revenue Service (IRS) requires a spouse to have a *bona fide* business purpose, business activity, and significant involvement with these business activities. Below are a few examples of the events that the spouse of a University President (“Spouse”) may attend.

Fundraising Events

The Spouse may participate in a *bona fide* fund raising event; however, the Spouse must demonstrate that there is a specific and significant involvement reason for the fundraising event. It is not sufficient for the Spouse to merely state that attendance was required or presence was necessary.

An event that is not entirely a fundraising event, such as a Bowl Game or athletic event, may be treated as a *bona fide* fundraising event if significant business activities occur, such as entertaining current or prospective donors, or hosting University guests and other dignitaries. Additionally, the University may hold Bowl Games or athletic events at which the spouse is expected to participate in hosting.

The Spouse will provide documentation reflecting the following information:

- Names of donors at fundraising event;
- Specific actions that the Spouse performed for the fundraising event purpose, e.g., presentations or spoke with specific donors; and
- Length of time at the fundraising event.

Conferences, Seminars, and Conventions

The Spouse may attend conferences with the University President; however, mere presence or networking at conferences with other colleagues or partners will not justify a *bona fide* business purpose. Some conferences may offer educational programs for spouses of the University President, attending such educational programs would be treated as a *bona fide* business activity and the Spouse should provide sufficient documentation of registration and attendance.

When no such educational programs are offered to the Spouse, the Spouse must provide sufficient documentation of engaging in substantial business activities at the conference. Sufficient documentation may include a description of the business activity and an estimate of time spent on such activities during the conference.

Community Events

The Spouse should provide the following documentation or records for community events:

- Description of community event;
- Specific business activities engaged at community event for promotion of the University; and
- Length of time at community event.

Recruitment Events

The Spouse's participation in a dinner or other event where the purpose is the recruitment of one or more potential University employees is a legitimate business activity for which related expenses may be reimbursed, provided that the "significantly involved" standard is met. An event may be a bona fide "recruitment" event if recruitment is not the event's primary purpose, so long as significant recruitment activities are conducted at the event.

It is not sufficient to simply attend the event. Rather, the Spouse should provide written records showing:

- The names of the persons being recruited;
- A description of the manner in which the Spouse participated in the recruitment of the persons; and
- The length of time of the event and the approximate amount of time that the Spouse spent at the event on specific recruitment discussions. At least 50% of the Spouse's time should be devoted to such discussions.

Award Presentations

The University President often receives awards and is required to travel to out-of-town locations where the award is presented. In these situations, the IRS presumption is that there is not a significant business purpose for the Spouse to travel to the presentation with the President; therefore, any travel expenses of the Spouse related to the University President's receipt of an award may not be reimbursed by the University.

Personal Travel Expenses

If, in connection with any fundraising, recruitment, or other trip where the Spouse is serving a *bona fide* business function, the Spouse incurs personal travel expenses (for example, days when the Spouse is not engaged in University-related business activities), the travel expenses related to the personal days shall not be charged to the University.

Appendix III: DOCUMENTATION FORM FOR SPOUSAL EXPENSES

This form should be used for allowable travel and non-travel expenses incurred for an employee's spouse pursuant to the employee's contract with the University. The form serves to document the business purpose of the spouse's participation in an activity in accordance with the policies and procedures of the University and IRS regulations. If the spouse has no specific and significant involvement in the activity, the allowable expenses paid by the University will be treated as the employee's taxable income subject to W-2 reporting.

Employee Name/Title (please print)

Spouse's Name

Department

Travel Date(s)

Location(s)

Event(s)

Business Purpose of Spouse's Attendance:

1. Business purpose is for fundraising, recruitment, or community events:

Please indicate the names of donors or persons being recruited, and describe the spouse's specific actions (e.g., presentation to a group or spoke with different donors or other persons) that furthered the fundraising, recruitment, or community event purpose.

2. Business purpose is for educational program in conferences, seminars, and conventions:

Please provide documentation of registration and attendance; if no such educational program was offered, please list a description of the business activity the spouse engaged in during the conference.

3. Length of time spouse spent at conference or other event:

Employee Signature

Date

Approval Signature

Date

UNRESTRICTED ACCOUNTING USE ONLY

Non-Taxable

The expenses reported on this form were necessary and proper and have been completed for University of New Mexico business purposes. The description and length of time of the business purpose are in sufficient detail to support that the expenses are a non-taxable *bona fide* business expense for the University of New Mexico.

Taxable

The spousal expenses are allowable, but do not meet the *bona fide* business purpose to promote the University business; hence the expenses will be treated as taxable income subject to withholding and W-2 reporting requirements per IRS rules.

Signature

Date