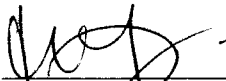


**UNIVERSITY OF CALIFORNIA, IRVINE
ADMINISTRATIVE AND BUSINESS SERVICES
INTERNAL AUDIT SERVICES**

**ACCOUNTING AND FISCAL SERVICES
TRAVEL EXPENSES AND RELATED APPROVAL PROCESSES
Report No. 2011-112**

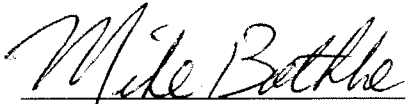
June 30, 2011

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UC Irvine Internal Audit Services

June 30, 2011

**RICHARD ANDREWS
UNIVERSITY CONTROLLER AND ASSISTANT VICE CHANCELLOR
ACCOUNTING AND FISCAL SERVICES**

**RE: Travel Expenses and Related Approval Processes Audit
Report No. 2011-112**

Internal Audit Services has completed the review of the Travel Expenses and Related Approval Processes and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.



Bent Nielsen
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Karen Miller, Accounts Payable Manager
Diana Nielsen, PayQuest Supervisor

TRAVEL EXPENSES AND RELATED APPROVAL PROCESSES
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I. BACKGROUND

University of California, Irvine (UCI) Internal Audit Services (IAS) conducted an audit of travel expenses and related approval processes. It is the policy of the University that all official travel shall be properly authorized, reported, and reimbursed in accordance with University of California Business and Finance Bulletin G-28: Policy and Regulations Governing Travel (G-28).

University employees traveling on official business shall observe normally accepted standards of propriety in the type and manner of expenses they incur. In addition, it is the traveler's responsibility to report his or her actual travel expenses in a responsible and ethical manner, in accordance with the regulations set forth in G-28.

UCI spent approximately \$15 million on travel related expenses for fiscal year 2009-2010. The spend volume of the UCI corporate card is just over \$4.5 million with just under 1,000 open accounts.

II. OBJECTIVES AND SCOPE

The objectives of this audit are to determine if travel expense policies and procedures are complied with; travel expenses are for official University business; travel expenses were properly authorized; and that there is an adequate system of internal controls over the processing of travel expenditures. IAS also evaluated use of the UCI corporate travel card (US Bank Visa). IAS reviewed travel expenditures for fiscal year 2009-2010.

IAS queried all travel related expenses in the general ledger for fiscal year 2009-2010 and determined the top 10 departments with the highest reimbursements by dollar amount and the top 25 highest single reimbursements to individuals. In addition, IAS reviewed transaction details for all US Bank Visa transactions for the months of December 2009 and October 2010. IAS also received data from the Office of Information Technology of all PayQuest transactions created since 2005 and determined the top 10 employees with the highest total reimbursements and the top 10 employees with the highest number of total transactions. Samples were selected for testing from the population of transactions that were established above.

IAS established the following objectives:

1. Obtain an understanding of the travel expense and related approval processes;
2. Review UC and campus related policies and procedures relevant to travel;

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3. Determine whether departments are complying with travel policies and procedures;
4. Evaluate whether there are adequate controls over processing of travel expenses;
5. Review a sample of travel expense vouchers and travel advances to determine whether travel policies and procedures are being followed;
6. Review a sample of corporate card statements to determine whether use of the card is for University business;
7. Review a sample of PayQuest transactions that were to reimburse a traveler using their US Bank Visa and determine whether the reimbursements match the expenses.

III. CONCLUSION

In general, the selected travel expenses and related processes reviewed appear to be functioning as intended. However, business risks and control concerns were identified relating to personal use of UCI corporate card; PayQuest preparer and payee are the same person; lack of documentation and untimely submission of travel vouchers; lack of traveler's signature as "Traveler's Certification" on PayQuest cover sheets; and lack of unique delinquency notifications.

Observation detail and recommendations were discussed with management, who formulated action plans to address the issues. These details are presented below.

IV. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Personal Use of UCI Corporate Card

Background

The US Bank Visa corporate card is intended to be used exclusively for UCI travel and entertainment expenses. It is not intended to be an additional credit card for the employee's personal use and the employee is liable for all expenses incurred. Users should ensure only UCI travel and entertainment related charges are made so that the corporate card provides a ready resource to track travel and entertainment expenses.

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Observation

IAS reviewed US Bank Visa activity for the months of December 2009 and October 2010 and judgmentally sampled transactions from 15 corporate cardholder accounts from two populations. The sample of 15 was selected from the top 10 employees with the highest transaction amounts in dollars and the top 10 employees with the highest total transactions.

IAS determined that 12 of the 15 corporate accounts reviewed had personal usage greater than 70 percent of total purchases. In addition, a couple of the cardholder accounts reviewed contained some unusual tendencies/transactions that required additional review and/or investigation of potential fraudulent activities.

As part of the application process for the corporate card, employees are required to read and sign the cardholder agreement, which states that the corporate card is not to be used for personal expenses. IAS determined that corporate card activity/usage is monitored on an exception basis by PayQuest personnel; such as when the cardholder is not current in making payments or when transactions are declined. However, corporate card personal purchases may not be reviewed or flagged as a potential issue if the cardholder is current in making payments.

Lack of monitoring of corporate card activity/usage increases the risk that employees will make personal purchases that may not be paid and may be written off against the University. In addition, lack of monitoring may lead to fraudulent activities going undetected.

Management Action Plan

On June 20, 2011 Accounting changed its review process to include reviews of all expenses paid via the US Bank Visa Corporate Card.

The corporate card application will be amended to emphasize the restriction of not using the card for personal expenses. All existing card holders will have to sign the revised application and will be notified of a new corporate card review process whereby their home departments will receive the monthly corporate card bank statements so they can monitor for non-business charges.

The corporate card will continue to be monitored by Accounting based on high dollar amounts, past due balances, declines, and other criteria.

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2. PayQuest

Some of the issues below are the responsibility of the individual departments/units and could go undetected by Accounting because the automatic/review audit limit may not capture this activity. Therefore, audit review limits should be evaluated and set comparable to the risks involved.

A. Preparer and Payee are the same Person

Observation

IAS reviewed a download of the PayQuest database since its inception and noted that there were 993 different individuals that prepared over 17,500 PayQuest reimbursements totaling approximately \$4.4 million in which they were also the payee. IAS looked at a sample of preparer/payee PayQuest reimbursements and noted that in one instance that the preparer, payee, and approver were the same person. Allowing the preparer to also be the payee weakens the control structure and increases the potential for fraud.

B. Lack of Documentation & Untimely Submission of Travel Vouchers

Background

Official University travel must be properly authorized, reported, and reimbursed in accordance with G-28. Authorization is to be obtained prior to undertaking University travel. Travel expenditures must be submitted to the campus accounting office within 21 days of the end of the trip.

Observation

IAS judgmentally selected a sample of 20 travel vouchers from two populations. The sample of 20 was selected from the top 10 departments with the highest reimbursements by dollar amount and the top 25 highest single reimbursements to individuals.

IAS determined that six of 20 travel vouchers were prepared more than 21 days after the last date of travel. In addition, five of the 20 travel vouchers sampled lacked supporting documentation to substantiate expenses incurred, such as, missing receipts, proof of payment, lack of justification for exceptional approval, etc.

Insufficient control over timely submission of travel expenses and lack of proper support for expenditures weakens the control structure and reduces the ability to detect fraudulent activities and/or inaccuracies.

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C. Lack of Traveler's Signature on PayQuest Cover Sheet

Background

The traveler must sign the travel expense voucher certifying that the amounts claimed are a true statement of the expenses incurred and that the original of all required receipts has been submitted. Internal departmental expense claim forms are not an acceptable alternative for obtaining the traveler's signature on the travel expense voucher (or electronic equivalent), unless approved as an exception to this policy.

Observation

Fourteen of 20 travel vouchers reviewed lacked the traveler's certification on the PayQuest cover sheet. The majority of non-compliant PayQuest cover sheets contained "see attached" notations on the traveler certification signature line, which then referred to/relied upon the signature noted on the request for reimbursement as the traveler's certification.

Allowing preparers to use "see attached" notations on the traveler certification line weakens the control structure and reduces the ability to detect inaccuracies. IAS has verified with Travel Accounting that there is no exception to this policy.

D. Lack of Unique Delinquency Notifications

Background

Travelers are able to request an advance for their travel. The PayQuest preparer, with all proper documentation and approvals, may create a trip number/advance that is then assigned to the traveler for his upcoming trip. Part of this process requires the identification of departmental staff members in case the trip becomes delinquent (the traveler neglects to submit a travel voucher that substantiates the reason for travel and the accompanying expenses).

Observation

IAS noted that in several cases, the second and final notification on some travel advances are going to the same person as in the first notification. However, the instructions in generating a trip number/advance state that delinquency notification begins with the UCI employee or preparer (first notification), then is supposed to go to the department head (second notification), and, at the end, is supposed to go to an individual identified as above the department head (final notification). Because this procedure may not be followed as outlined, some departments may not realize that there is an outstanding advance.

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Management Action Plan

The risk related to the preparer and payee being the same person will be addressed with the implementation of the new Quali Financial System (KFS), which will have an electronic approval routing workflow that will not allow the preparer and payee to be one in the same. While a specific date for KFS implementation has not been determined, for planning and audit follow-up purposes, a July 2013 date is a reasonable approximation.

Since many of the control activities related to the issues noted above exist in the departments/units, Accounting management will emphasize these items during their monthly PayQuest training. In addition, Accounting management will re-evaluate the automatic review/audit limits to ensure that the risks associated with PayQuest transactions are commensurate with activity.