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October 4, 2024

Daniel Feitelberg  
Interim Vice Chancellor for Finance and Chief Financial Officer

Interim Vice Chancellor Feitelberg:

We have completed our audit of Employee Reimbursements (Travel, Entertainment, and Miscellaneous) as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observations with management action plans are expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of the Controller's Office for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

*Jaime Jue*

Jaime Jue  
Director

cc: Associate Vice Chancellor and Controller Mike Riley  
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# AUDIT AND ADVISORY SERVICES

## Employee Reimbursements

### Audit

Project No. 24-786

October 4, 2024

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**University of California, Berkeley  
Audit and Advisory Services  
Employee Reimbursements**

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# OVERVIEW

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## Executive Summary

The purpose of the audit was to evaluate the design and operating effectiveness of internal controls related to employee reimbursements (travel, entertainment, and miscellaneous), including the risk of fraudulent disbursements.

Our internal audit procedures included interviews and walkthroughs with management from the Controller's Office, administrative leadership from selected schools/colleges, and Supply Chain Management as a key stakeholder. We also performed a detailed review of a sample of reimbursements processed during fiscal year 2023. Procedures were not designed to directly assess or opine on transaction validity or compliance with applicable university policies, but instead were intended to assess the general sufficiency of campus procedures and controls to provide this assurance.

Employee reimbursements are processed through the campus' reimbursement system, a locally developed and maintained web-based application used for travel, entertainment, and other non-travel and entertainment-related expense reporting and reimbursement requests. In 2022, non-travel and entertainment-related expense items that were previously purchased through BearBuy were transitioned to the Controller's Office for processing and reimbursement.

Management has established procedures and controls to review reimbursement transactions, and we acknowledge the efforts of the Controller's Office to help ensure an appropriate level of diligence to verify transaction validity and policy compliance. We noted a need to enhance approval workflow to ensure appropriate expense review and authorization as the current homegrown reimbursement system allows for bypassing designated unit approvers. In addition, we noted an opportunity for the Controller's Office to reassess the scope and approach of its monitoring program to ensure its ongoing alignment with management's risk tolerance and larger related campus priorities and goals.

## **Source and Purpose of the Audit**

Our audit was performed as part of our fiscal year 2024 audit plan. The purpose of the audit was to evaluate the design and operating effectiveness of internal controls related to employee reimbursements (travel, entertainment, and miscellaneous), including the risk of fraudulent disbursements.

## **Scope of the Audit**

Our internal audit procedures included interviews and walkthroughs with management from the Controller's Office to obtain an understanding of and assess processes and internal controls related to reimbursement requests. Additionally, we performed a detailed review of a sample of travel, entertainment, and non-travel and entertainment reimbursements processed during fiscal year 2023. Our procedures were not designed to directly assess transaction validity or compliance with policy, but instead were intended to assess the general sufficiency of campus procedures and controls to help ensure compliance with relevant university policies. Lastly, we met with administrative leadership from three schools/colleges that were part of our sample to gain an understanding of reimbursement authorization, review, and approval procedures.

Our audit procedures were conducted during the August 2023 to January 2024 timeframe.

## **Background Information**

Employee reimbursements are processed through the campus' reimbursement system, a locally developed and maintained web-based application used for travel, entertainment, and other non-travel and entertainment-related expense reporting and reimbursement requests. In addition to the out-of-pocket expenses paid by a university employee for costs associated with travel, business meetings, or university-hosted entertainment events, other non-travel and entertainment-related expense items that were previously reimbursed through BearBuy were transitioned to the Controller's Office for processing and reimbursement in 2022. Examples of these other non-travel and entertainment-related expense items include lab supplies, conference registration, office supplies, computers, memberships, and moving and relocation expenses.

Ensuring the appropriateness of employee reimbursements and their compliance with applicable policy and legal requirements is a responsibility shared by the requesting employee, the appropriate department approver(s), and the Controller's Office. Transactions meeting certain criteria are audited by the Controller's Office, and expense reports (except for under \$75 travel reimbursements) are also reviewed by at least one designated departmental approver, but the nature and extent of review protocols vary across departments.

University policies relevant to employee reimbursement processes include Business and Finance Bulletins (BFB) *G-28 Travel Regulations* and BUS-79 *Expenditures for Business Meetings, Entertainment, and Other Occasions*. Non-travel and entertainment expenses are covered in BFB-BUS-43 *Purchases of Goods and Services; Supply Chain Management*.

## **Summary Conclusion**

Primary responsibility for ensuring the validity and policy compliance of reimbursement transactions resides with the designated department-level approver, with an additional level of

oversight and control provided by the Controller's Office through a formal transaction auditing process. The current internally-developed reimbursement system has certain functional limitations that impact the design and effectiveness of internal controls. We noted a need to enhance approval workflow to ensure appropriate expense review and authorization as the current homegrown reimbursement system allows for bypassing designated unit approvers. In addition, we noted an opportunity for Controller's Office to reassess the scope and approach of its monitoring program, including escalation protocols and consequences for non-compliance, to ensure its ongoing alignment with management's risk tolerance and larger related campus priorities and goals.

Our observations and other process improvement opportunities are detailed in the *Summary of Observations* and *Process Improvement Opportunities* sections which follow.

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## SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

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### Approval of Expense Reports

#### Observation

The expense reimbursement system is currently designed to allow flexibility to the expense report submitter in selecting the expense report approver. Although a report submitter is provided with a pre-populated list of approvers from which to select, based upon designation made by the divisional finance leader (DFL), the submitter can bypass this list and select from any other individual with the approver role across campus. We understand this is allowed because the appropriate approver may vary, depending on the funding source, especially for research-related expenditures. We further note that reporting is not available to provide visibility into and enable the monitoring of expense report submission and approval activity.

Although this flexibility for submitters to select approvers may be operationally warranted, there are currently no specific controls in place to verify the employee-approver relationship, nor the appropriateness of the selected approver for the particular chartstring(s). As such, there is an inherent risk that the transaction may not be reviewed by an approver with the appropriate knowledge, context, or authority to substantiate the business purpose and/or allowability of the expense or who may have a subordinate reporting relationship to the submitter.

Controller's Office and monthly departmental/principal investigator general ledger reviews may mitigate some of the risk of significant errors or improprieties. However, we note an opportunity to strengthen internal controls by limiting the ability of submitters to redirect reports to approvers outside their unit or division who likely have limited ability to assess for appropriate business purpose or financial chartstring and/or by enhancing reporting capabilities to facilitate monitoring and the detection of inappropriate approval routing. Management has indicated a preference to potentially incorporate such functionality as a part of designing and implementing a new system rather than to invest resources to further develop the existing system, which has no current product roadmap plans for future feature development.

#### Management Response and Action Plan

- Many of the existing controls regarding approval routing are based on the campus SARA system (that is, primarily granted/limited by L4 Org Node) and changing that system would be a major project. Some degree of flexibility is also necessary, as many smaller units need to route items to approvers in other units due to a lack of manpower. However, the implementation of the proposed new reimbursement system in BFS provides opportunity to address these issues, and we will investigate the capability of that system in providing more granular and appropriate access to the correct individuals, as well as the possibility of an exception process.
- We expect business requirements for the new system to be defined by December 2024 and a determination on the functional capabilities of the new system along with a proof of concept by the end of fiscal year (June) 2025.

## **Compliance and Monitoring Program**

### **Observation**

We acknowledge the efforts of the Controller's Office and the departments to help ensure an appropriate level of diligence in reviewing expense reports. In particular, we noted prior instances when Controller's Office staff intervened to remediate non-compliant or anomalous transactions.

However, we note an opportunity for management to reassess the current approach to monitoring given the increased volume of transactions now subject to review as a result of the campus' decision to process non-travel and entertainment (T&E) expense reimbursements through the T&E reimbursement system.

Currently, Controller's Office review procedures are primarily focused at the individual transaction level, with limited broader cross-transactional analyses being performed on an ad hoc basis when questions or concerns arise. We note that the current approach is time-consuming (impacting both Controller's Office staff and expense report submitters) and, as a manual and judgmental review, can be difficult to ensure consistency in the detection and handling of potential errors or discrepancies. In addition, identifying/addressing compliance issues at an individual report level versus from a more holistic view may hinder effective root cause analysis, magnitude assessment, and change management.

Accordingly, we recommend that management review current procedures to assess the ongoing risk and benefit trade-offs of the current approach, and to explore ways to monitor activity at the aggregate level based on specific risk indicators and defined risk tolerance levels. As part of this, management should also clarify and document the objectives of the monitoring program to ensure ongoing alignment of objectives and procedures.

### **Management Response and Action Plan**

- The recommended changes to the monitoring program is not feasible in the current expense reimbursement system due to its limited capabilities. Our newly proposed reimbursement system in BFS, however, has the ability to choose reports for audit on a much more granular level than our current system, which primarily uses report total dollar levels and self-reported factors to decide which reports need to be audited. This has led to a lot of auditing as many benign reports are being audited; one of the primary goals when designing our new system will be to combat this with more targeted and risk-based audits based on factors the current system is incapable of identifying.
- For this new system, the Controller's Office will determine if BFS has the capacity to automatically generate reporting to financial officers of departments on a regular basis regarding the transactions that take place within their unit, and will consider providing routine reports depending on the results of that determination.
- As mentioned in the response to the prior observation, we expect business requirements for the new system to be defined by December 2024 and a determination on the functional capabilities of the new system along with a proof of concept by the end of fiscal year (June) 2025.



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## PROCESS IMPROVEMENT OPPORTUNITIES

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As part of our audit, we also identified the following process improvement opportunities:

1. We note an opportunity to enhance reporting capabilities to facilitate unit monitoring of expense reimbursement activity. The current expense reimbursement system was designed primarily for transaction processing, and does not allow for flexible query or reporting of activity by end-users. In addition, there are certain data elements that are not available in the campus data warehouse, CalAnswers, such as approver or expense business purpose, and we noted a small number of transactions in our testing sample where certain data elements normally available were missing. To help better enable the efficient monitoring of expense reimbursement activity by units, we recommend that management work with campus stakeholders to obtain a better understanding of their reporting/monitoring needs, and seek to make enhancements as possible.
2. In the interim period before the implementation of a new expense reimbursement system, management may wish to consider developing a limited pilot of reports from the existing system that identify those large transactions where the submitter and approver are in different divisions. Such reports would potentially identify higher-risk cases of potential override of designated unit-approver controls and could be distributed to the appropriate divisional contacts. We understand that challenges may arise from incorporating organizational tree information from the financial system as well as employee information from the human resources system into the existing reimbursement system. However, a limited pilot may be helpful to evaluate the usefulness of future reports in the new system.
3. Currently there is no formal onboarding or training for those receiving the approval role for reimbursement submissions. As part of the development of user training which will be developed for the new system, management should consider incorporating the responsibilities of the approver and a guide to what to look for so as to help ensure a consistent minimum level of understanding across the campus.
4. We observed non-travel and non-entertainment reimbursement for items that could have been procured through other procurement channels such as BearBuy or departmental Blucards (procurement cards) and for which these end-to-end processes have embedded internal controls to ensure policy compliance, expense allocability, and appropriate business purpose. Management should consider periodically re-communicating guidance on preferred methods to procure commonly purchased items. Alternatively, management could restrict out-of-pocket reimbursement for categories of items that should only be procured through established procurement processes. We understand that such restrictions would likely need to incorporate a process for considering and approving exceptions on a case-by-case basis.