February 5, 2013

DONALD LARSON
Controller
0951

Subject: ***Entertainment***
Audit Project 2013-12

The final audit report for Entertainment, Audit Report 2013-12, is attached. We would like to thank all members of the department for their cooperation and assistance during the audit.

The findings included in this report will be added to our follow-up system. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions, and will advise you when the findings are closed.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel, or destroy them, at the conclusion of the audit exit conference. AMAS also requests that draft reports not be photocopied or otherwise redistributed.

David Meier
Assistant Vice Chancellor
Audit & Management Advisory Services

Attachment

cc: G. Matthews
F. McCullough
D. McDevitt
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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Entertainment
December 2012

Performed By:

Greg Buchanan, Auditor

Approved By:

David Meier, Assistant Vice Chancellor

Project Number: 2013-12

Entertainment
Audit & Management Advisory Services Project 2013-12

Table of Contents

I. Background 1
II. Audit Objective, Scope, and Procedures 2
III. Conclusion 3
IV. Observation and Management Corrective Actions 3
A. Entertainment Event Approvals 3

Attachment A – MyEvents Approval Routing/Hierarchy

Entertainment
Audit & Management Advisory Services Project 2013-12

I. Background

Audit & Management Advisory Services (AMAS) completed a review of Entertainment as part of the University of California (UC) system-wide audit included on the approved audit plan for Fiscal Year 2012-13. This report summarizes the results of our review, which was completed using a standard audit program and approach shared by all ten UC campuses and the Lawrence Berkeley National Laboratory.

Business and Financial Bulletin BUS-79: Expenditures for Business Meetings, Entertainment, and Other Occasions (BUS-79), outlines policies and procedures that govern expenditures incurred in providing hospitality to academic and staff employees, and to non-employee donors, visitors, volunteers and students in connection with a business meeting, entertainment event or programmatic activity.

On a local level, UCSD departments and organized research units (ORUs) are individually delegated responsibility for ensuring that entertainment and business meeting expenditures paid for or reimbursed with University funding sources are in compliance with BUS-79. UCSD Travel provides resources for ensuring that entertainment and business expenses comply with policy. UCSD Travel is also responsible for processing entertainment and business meeting expense reimbursement requests, and for managing the UCSD Travel Card and Travel Event Planner (TEP) Card programs.

In August 2009, UCSD implemented a web-based application called MyMeetings and Hosted Events (MyEvents) to electronically process entertainment and business meeting expenses. MyEvents was designed to incorporate many of the requirements of BUS-79, and includes many features that streamline the reporting, review and approval process. The system was designed so that the information requested from the employee entering the data into the system (the preparer) differs based on the type of event. Depending on the information provided by the preparer, the system may prompt the preparer to attach supporting documentation, restrict expenditures based on the funding source used, or require additional approvals.

While MyEvents has been used to process a vast majority of entertainment expenses since its introduction, a manual paper-based process continues to be used when entertainment or business meeting expenses are paid for using a Travel Card or a TEP card. UCSD Travel Cards can be used to pay entertainment or business meeting expenses, and cardholders can request that the University make a direct payment to the Travel Card in lieu of reimbursement. However, at the time of this review the MyEvents system did not have a mechanism in place to process a direct payment to a Travel Card. Therefore, UCSD Travel required that these events be processed outside of the MyEvents system using a manual paper-based system. UCSD Travel is pursuing IT resources to

update MyEvents so that requests for direct payment to a Travel Card can be accommodated.

A TEP Card is a payment card issued by US Bank to department representatives at the discretion of UCSD Travel, and can be used to pay expenses relating to an individual event. To be issued a TEP card, departments must submit detailed information about the event to Travel. At the conclusion of the event the card can no longer be used, and event expenditures are reconciled by an individual other than the cardholder. In addition, departments who use the TEP card must complete a TEP reconciliation form within 10 days of the event date, which includes essentially the same data that would have been entered into the MyEvents system. These forms are kept on-file within the department, and are subject to post audit by Travel.

Excluding events categorized as technical business meetings (account 637255 in the Integrated Financial Information System (IFIS)) or programmatic activities (IFIS account 637592), UCSD incurred approximately $5.2 million in meeting and entertainment expenses during the Fiscal Year 2011-2012. The five departments that incurred the highest dollar amount of meeting and entertainment expenses during that period are as follows:

Department	Total Entertainment Expenses[1]	Total Transactions
Rady School of Management	$685,100	889
University Development	$253,958	551
CalIT2	$150,007	250
Biological Sciences	$145,440	913
Alumni Affairs	$134,496	687

II. Audit Objective, Scope, and Procedures

The objective of our review was to determine if local interpretation and application of procedures for entertainment expenses were adequate to ensure compliance with BUS-79. In order to achieve our objectives we completed the following:

- Reviewed BUS-79;
- Interviewed the following representatives from BFS – Disbursements & Travel:
  - Director,
  - Accountability & Tax Compliance Manager,
  - Assistant Director for UCSD Travel, and

[1] These totals do not include expenses with account codes 637255 (technical business meeting) or 637592 (programmatic activity), as these event types were excluded from the scope of this review.

- UCSD Travel Financial Team Supervisor;

- Judgmentally selected a sample of 23 entertainment and business meeting events incurred by Senior Management Group (SMG) and Deans whose total travel and entertainment expenditures were at least $5,000 during Fiscal Year 2011-2012, and tested the sampled events for compliance with BUS-79;

- Identified the five departments that incurred the highest dollar amount of entertainment and business meeting expenses during Fiscal Year 2011-2012, and evaluated the procedures and controls in place for reviewing and approving entertainment and business meeting expenses by conducting interviews with business administrators in:

  - Rady School of Management,
  - University Development,
  - Cal IT^2,
  - Biological Sciences, and
  - Alumni Affairs;

- Reviewed IFIS approval hierarchies used to approve entertainment event transactions for the five departments that incurred the highest dollar amount in entertainment expenses during the Fiscal Year 2011-2012.

The scope of our review did not include entertainment or business meeting expenses classified as technical business meetings (IFIS account 637255) or programmatic activities (IFIS account 637592).

III. Conclusion

Based on the audit procedures performed, we concluded that local interpretation and application of procedures for entertainment expenses were generally adequate to ensure compliance with BUS-79. However, we did identify instances in which event transactions were approved by an individual reporting directly or indirectly to the host or payee, which is contrary to University policy. This finding is discussed in further detail below.

IV. Observation and Management Corrective Actions

A. Entertainment Event Approvals

Controls for entertainment expenses incurred in some locations could be improved to ensure that the events are not approved by an employee who reports directly or indirectly to the Dean or SMG.

BUS-79, section V.A.2 states "To ensure proper internal controls, an individual with delegated approval authority may not authorize payment of the entertainment expenses of anyone to whom he or she reports either directly or indirectly, i.e., the approving authority should be the supervisor of (or at a higher classification than) the person claiming the expenditure. In addition, individuals with delegated approval authority shall not approve their own entertainment expenses or the entertainment expenses of a near relative (e.g., spouse, domestic partner, child, parent, etc.)."

MyEvents systematically determines the level of approval required for each event and automatically routes to the appropriate approver based on department hierarchies. **Attachment A** provides an overview of the different ways that events are routed for approval, depending on the nature of the event. In addition to the established approval levels, approvers have the ability to route events to additional individuals via the MyApprovals system.

Of the 23 events that AMAS tested for compliance with BUS-79, six were not approved in accordance with BUS-79. For these six events, the event was only routed to employees that reported directly or indirectly to the VC or Dean that was listed as the host or payee.

Management Corrective Actions:

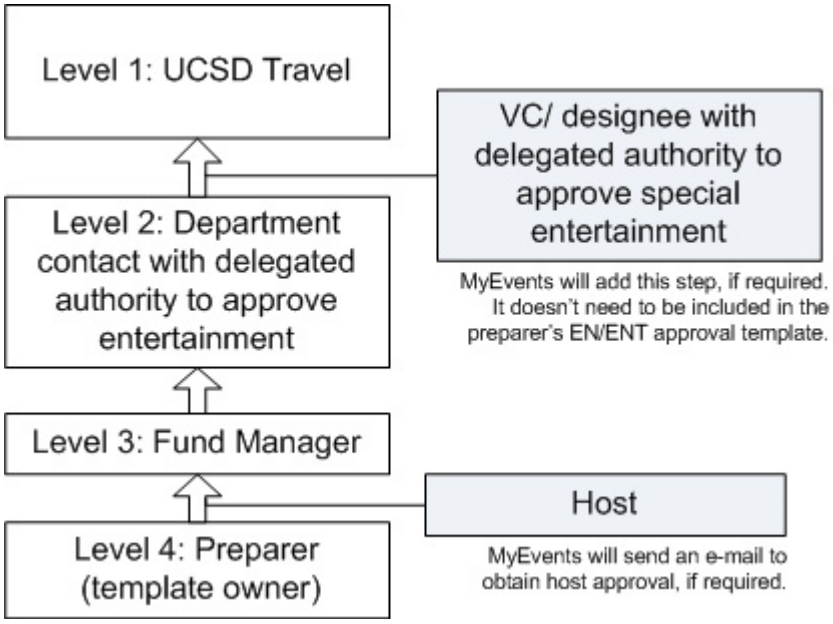
1. The Controller will advise senior campus management of the need to focus on appropriate approval processes for entertainment transactions during regularly held fiscal officer meetings.

2. AMAS will provide UCSD Travel with a listing of the six events that were not approved in accordance with BUS-79. UCSD Travel will coordinate as needed with campus administrators to ensure that all future events in which these Deans and SMGs are either the host or payee are approved by personnel who are not subordinate to the Dean or SMG.

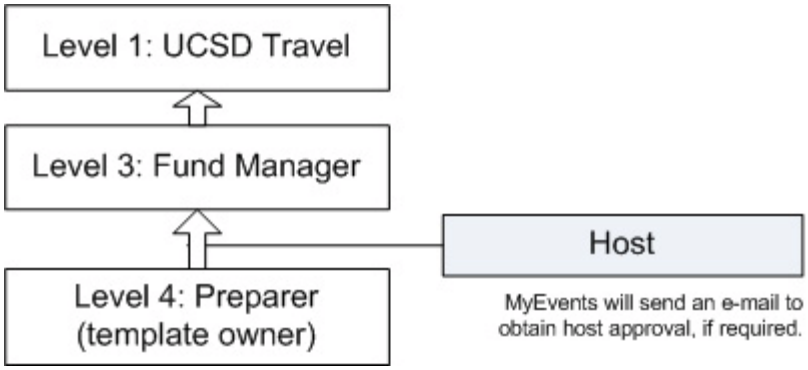
3. UCSD Travel will include a reminder to departments about BUS-79 approval requirements in their semi-annual electronic newsletter to campus departments.

4. UCSD Travel will evaluate the use of specialized data extraction and analysis software (Audit Command Language Exchange) for purposes of validating that entertainment transaction approvals conform to University policy.

Entertainment event routing/ hierarchy:



Non-entertainment event routing/ hierarchy:



Source: http://blink.ucsd.edu/travel/expenses-reimbursements/reporting/myevents/