INTERNAL AUDIT

IAS

ADVISORY SERVICES

Internal Audit Report

EXECUTIVE TRAVEL & ENTERTAINMENT SYSTEMWIDE REVIEW

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UC SANTA CRUZ

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I.   EXECUTIVE SUMMARY

Internal Audit & Advisory Services (IAS) has completed an audit of campus controls over travel and entertainment transactions. This UC systemwide audit was conducted to determine that local implementing procedures were in compliance with the appropriate university policies over travel and entertainment.

In general, controls over travel and entertainment transaction processes were robust and the campus had implemented procedures that provided reasonable assurance of compliance with UC policies. This included procedures and practices for monitoring, reviewing and approving travel and entertainment expenses for senior officials, as well as other selected campus employees and departments, providing reasonable assurance for compliance with policies and costs incurred for business purpose and campus benefit. In addition, campus travel and entertainment expenses reviewed were supported by records consistent with policy.

However, observations were made to address the need to establish and communicate the desired level of travel expense reviews to be performed by divisions and by Financial Affairs. In addition, while ERF provided strong control over entertainment policy compliance, divisions found using the new ERF system to be cumbersome and questioned the cost benefit of using the system. We were informed that improvements to the system are expected to bring added efficiency; therefore, more time is needed to determine the benefit of the added cost of compliance.

Some of these observations were similar to those identified in the FY12 IAS consulting services report, *SC-12-51 Travel & Entertainment Policies Review.*

The following issue required management corrective action were identified during the review:

A. Travel Expense Review Process
The travel expense review process can include reviews at divisional offices, as well as at the EVC's office, and at FAST. Consequently, there can be unnecessary duplicate reviews; at the same time each of these groups described the reviews as challenging the workload of staff. In response to budget constraints and awareness of duplication in travel expense reviews, Financial Affairs is looking to refocus its efforts towards processing payments and less towards providing its compliance review. Divisions are also concerned that they do not have the resources to provide the compliance assurances they have relied on Financial Affairs to provide.

Observations and related recommended management corrective actions are described in greater detail in section III of this report.

II.   INTRODUCTION

Purpose

The purpose of the review was to determine that local implementing procedures are in compliance with the appropriate university policies over travel and entertainment:

- The campus has implemented procedures that ensure compliance with University wide policies over travel and entertainment

- Existing procedures and practices followed in monitoring, reviewing and approving travel and entertainment expenses for senior officials, other employees and selected departments reviewed provide reasonable assurance of compliance with University policies and costs incurred are for a business purpose and UC benefit

- Travel and entertainment expenses reviewed were supported by records consistent with University policies and in a manner that demonstrated costs were incurred when conducting University business

Background

The Office of Financial Affairs supports the campus in part by maintaining a strong campus-wide financial control and accountability environment, which relates directly to this review of travel and entertainment.   Financial Affairs is headed by the Controller's Office that develops implements, and maintains a comprehensive system of internal control for the campus and coordinates the efforts of campus units in maintaining a strong financial control and accountability environment.

Financial Affairs departments we contacted during our review are Financial Administrative Services and Transactions (FAST), which handles direct payments and reimbursement for travel and entertainment, among other transactions; and Financial Accounting and Reporting (FAR) that oversees the general accounting, accounts payable, travel accounting, etc. for the campus.

Generally, fund custodians, such as department heads or others with delegated authority are primarily responsible to approve travel and entertainment reimbursements. In general, a review of travel and entertainment expenses is required to ensure compliance with fund source restrictions and related policies, but UC policy does not identify who should conduct that review. At UCSC, the review responsibilities such as for research related transactions are as follows:

- Fund custodian (tier 1 reviewer), such as the PI, reviews to ensure the expense is a legitimate business expense. Fund custodians were not expected to have the knowledge or time to review for compliance with specific fund requirements or UC policies that apply to all funds. This is especially the case for senior managers, deans, chairs, and PIs.

- Research accountant (tier 2 reviewer) reviews to ensure the expenses charged to the sponsored research award are allowable, allocable, and reasonable for the award, based

the specific guidelines from the sponsoring agency and according to federal cost principles. They also assign General Ledger codes (FOAPAL) to account for the transaction.

- Payment processing staff (FAST) ensures amounts add up correctly and the transaction complies with general UC policies, e.g. UC travel or entertainment policies. FAST keeps examples of tier 2 approver signatures to ensure appropriate signoffs.

For non-research related transactions, the divisional business office will provide the tier 2 review to ensure compliance with divisional policies that are more restrictive than general UC or campus policies, and will apply appropriate ledger codes. Divisional business offices must sign the FAST Divisional/Department Accountability Agreement acknowledging accountability for the following:

- Checking availability of funds

- Reviewing the data for legitimacy and appropriateness of expense against appropriate Org/Fund

- Verifying appropriate expenditure-authorized signatures kept within the unit

- Submitting completed forms (vouchers) with adequate documentation

- Submitting 204 Forms

FAR provides weekly audits of samples of vouchers and added review of any voucher requiring reimbursement of $5,000 or more before payments are made.

Financial Affairs also provides travel forms (Travel Advance form and Post-Travel) and online guidance for travel expense approvers and travelers.

Financial Affairs rolled out an Entertainment Reporting Form (ERF) in January 2012 as part of a strategy to standardize the process of procuring and accounting for event and occasion meals and refreshments, and to achieve consistent, satisfactory compliance. The ERF is an electronic form that serves as a record for required expenses, out-of-pocket reimbursements, Dining Services recharges, UCSC Catering recharges and/or Food & Entertainment purchase orders. Authorized ERF's are sent to Financial Affairs for policy reporting requirements and payment disbursements.

Divisional personnel provide approval of entertainment events (Entertainment Order Approver–EOA) and approval of entertainment expenses (Entertainment Expense Certifier – EEC) for which training and passing a proficiency test are required. Financial Affairs provides online guidance and in-person training for processing entertainment transactions, as well as general guidance for campus personnel to inform them of their compliance responsibilities.

Scope

The scope of the audit covered activity for fiscal year 2011-2012 and include:

- a review of a sample of travel and entertainment expenses for Senior Management Group (SMG) members and deans that exceeded $5,000 for the fiscal year in travel and entertainment expenses combined. We selected a sample of travel and entertainment expenses from each individual meeting the > $5,000 criteria for audit testing.

- a review of systems, procedures and practices for at least five departments with the greatest travel and entertainment costs.

Athletics personnel and athletics departments were excluded from this review.

Refer to Appendix A: *Summary of Work Performed and Results* for additional detail on audit scope.

III.   OBSERVATIONS REQUIRING MANAGEMENT CORRECTIVE ACTION

A.	Travel Expense Review Process

The travel expense review process can include reviews at divisional offices, as well as at the EVC's office, and at FAST. Consequently, there can be unnecessary duplicate reviews; at the same time each of these groups described the reviews as challenging the workload of staff. In response to budget constraints and awareness of duplication in travel expense reviews, Financial Affairs is looking to refocus its efforts towards processing payments and less towards providing its compliance review. Divisions are also concerned that they do not have the resources to provide the compliance assurances they have relied on Financial Affairs to provide.

Risk Statement/Effect

Historical responsibilities for travel expense reviews for compliance with general travel policy are difficult to maintain due to reductions in campus institutional support, and a re-evaluation of the risk acceptance levels and associated staffing desired to ensure campus compliance with travel policy.   If changes in responsibility for review for compliance are not managed thoughtfully, and fully communicated between divisions and central units, the campus could end up suboptimizing existing resources or assuming an unacceptable level of risk it has not adequately planned.

Agreements

A.	Financial Affairs will reevaluate the travel expense review process and collaborate with campus divisions and the EVC's office to determine how the process might better achieve a reasonably acceptable balance between the following factors:	

- Process simplification

- Adequate pre- and post-audit financial controls

- Appropriate levels of accountability between expense reviewer-approvers, and divisional, FAST, and FAR office staff members

- Resource availability

- Acceptable level of campus-wide residual risk

Financial Affairs will work with the Business Managers Advisory Group and Assistant Deans Group in analyzing and, as needed, redefining the process. The resulting process and/or responsibility changes will be communicated to campus business officers and business managers, and related user guidance materials will be updated and revised. (Refer to A.1, A.2, A.3, and A.4 for specific actionable steps and estimated completion dates)

A.1	**Analysis**: Financial Affairs will evaluate the current travel expense review process to identify process simplification, and control and accountability improvement opportunties. This is expected to result in the development of a proposed, updated process and redefinition of process user accountabilities.	Implementation Date
		9/30/2013
		Responsible Manager
		Campus Controller
A.2	**Consultation**: Financial Affairs will seek input to the proposed updated travel expense process and related accountability definitions from the Business Managers Advisory Group and Assistant Deans Group.	Implementation Date
		12/31/2013
		Responsible Manager
		Campus Controller
A.3	**Refinement and implementation planning**: Based on feedback received from reviewers, final revisions will be made to the updated process document and related accountability definitions. An implementation strategy will be developed.	Implementation Date
		6/30/2014
		Responsible Manager
		Campus Controller
A.4	**Implementation**: The redefined travel expense review process and/or changes in roles and responsibilities for travel expense review (refer to A.1) will be implemented. Campus business officers and business managers will be notified and related guidance materials (refer to A.2) will be updated and revised.	Implementation Date
		9/1/2014
		Responsible Manager
		Campus Controller

A. Travel Expense Review Process – Detailed Description

The UC travel policy does not describe what a review to verify compliance should consist of. Further, it only identifies where a review should take place when it concerns the senior managers group and deans.

Consequently, the campus has devised its own control procedures, including reviews for compliance, which address all other business travel, including audits of travel expenses. For example, the Financial Affairs Website provides a "Campus Travel Expense Approver's Guide" that states the objectives of review as follows:

A complete accounting of expenses is required of every trip to ensure compliance with travel policies. The objective of an expense review is as follows:

- *Ensure that travel expenses are*
    - *Necessary – expenses that are consistent with normally accepted standards of propriety*
    - *Proper – expenses that directly relate to accomplishing the business-related purpose of the trip*
    - *Reasonable – the most economical means of travel was used*

- *The funding source used to pay for the trip is valid*
- *Non-business expenses are separately identified*

A Post Travel Expense Form and related supporting documentation are subject to audit review by internal, Regents, and/or federal agency auditors, and are considered public records.

From 1995 to 2005, the responsibility for travel expense review rested with "Service Centers" in the divisions. Service Centers in a research division consisted of a business office, research accountants, payment processing staff, procurement staff, and human resources staff. In 2005, a Business Transformation Program consolidated the payment processing staffs of Service Centers into FAST. At that time, FAST started with over 30 FTE; cuts have continued until currently there are 18 FTE to process payments.

Divisions have also suffered cuts in FTE while their responsibilities for transactional review and approval have not diminished.

In FY2012, Internal Audit & Advisory Services provided a consulting services report on travel and entertainment policies (SC-12-51). The purpose of that review was to evaluate the balance between the cost of existing practices and controls, and the risk of non-compliance regarding existing university and local campus travel and entertainment policies, procedures, and practices. Overall, we found ingrained in the campus culture, a robust control environment for ensuring compliance with travel and entertainment expense policy. Central and divisional units demonstrated a high level of commitment to policy compliance and a consistent application of the related procedures. However, this level of control may no longer be the most effective use of resources given the present campus budget climate. Opportunities were identified for re-examining existing controls designed to help ensure compliance with travel and entertainment policy. For example, the report mentioned opportunities for reducing the level of review of travel and entertainment reimbursement request conducted by Financial Affairs, and relying more on divisional approval processes and oversight. This action would require the acceptance of a higher risk of undetected non-compliance, but would also allow for a redirection of Financial Affairs resources.

Divisional personnel we interviewed were not aware that Financial Affairs was considering scaling back FAST review for compliance with general UC policies and placing increased reliance on divisions for assuming accountability for compliance with general policies in addition to their other reviews. Such an action should be fully evaluated and expectations communicated between all of the affected parties.

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APPENDIX A – Summary of Work Performed and Results

EVC Office	
Work Performed	**Results**
We interviewed the special assistant to the executive vice chancellor who authorizes travel and entertainment for the SMG and deans to learn the procedures and controls in place for reviewing and approving travel reimbursements and costs charged directly to the university.	We learned that: 1. Travel and entertainment expenses are reviewed in detail to reasonably ensure compliance with university and campus policies. 2. Expenses are reviewed in a manner and by a person who is assuring that the costs incurred are in support of appropriate university business. 3. Individuals reviewing expenses for compliance and propriety understand their role and responsibility to question travelers when appropriate to gain additional information needed to process and approve expenses. 4. The review process can include reviews at divisional offices for deans, as well as at the EVC's office, and at FAST. Consequently there can be unnecessary duplicate reviews. There are times when review and approval of travel and entertainment challenge the workload of the EVC Office staff. 5. EVC Office reviewers do not directly report to the SMG members they review or to deans. 6. The EVC is provided monthly reports on all transactions the special assistant authorizes, in compliance with UC policy. 7. Members of the SMG and deans have adequate resources to develop a clear understanding of UC travel and entertainment policies, as well as their responsibilities for submitting requests for reimbursements with supporting documents.

SMG & Deans' Travel	
Work Performed	**Results**

We generated reports of SMG and deans' travel using InfoView and MS Access queries of the Financial Information System database. Of the ten members of the SMG, only three had sufficient travel expenses for detailed testing. These three included the chancellor who we did not include in this review, as a separate, annual review (G-45) will be done for his expenses. Of the seven deans, five had travel expenses sufficient for detailed testing, as outlined in the system-wide Audit Program.
 	
Our detailed testing included the following criteria:
1. Verify that travel expenses (transportation expenses, per diem, lodging allowance expense, and miscellaneous expenses, etc.) are in compliance with the travel policy. If there is a deviation in policy, determine whether a reasonable explanation was provided.
 	
2. Verify that adequate supporting documentation exists. Specifically, test for the following:
 	
   a. Purpose of the trip, supporting records, and other information demonstrates that the travel is for University purposes.
   b. If the traveler has lost original receipts and has completed a missing document form, inquire to determine if this happens regularly or if the traveler rarely loses receipts.
   c. If the traveler mingled personal and business activities, an adequate explanation and records exist to demonstrate the University only paid for expenses directly associated with University business.
   d. Expenses are ordinary and necessary to accomplish the official business purpose of the trip.
   e. Assess the necessity of the incurred expense.
   f. Each miscellaneous expense of $75 or more is supported by a receipt.
3. Verify that an adequate review for appropriate authorization was performed.
	1. Travel expenses were generally in compliance with policy. In one case, there was a lodging expense that exceeded the per diem maximum limit. However, the traveler provided a reasonable explanation to justify it.
	
	2. Adequate supporting documents were provided for all samples tested.
	
	3. Review was adequate.

SMG & Deans' Travel (continued)	
Work Performed	**Results**
4. Determine whether advances are in compliance with travel policy. Specifically, test for the following: a. Cash advances do not exceed the estimated out-of-pocket expenses for the trip. b. Advance was not issued greater than 30 days before any expenses were paid or incurred by the traveler (See G-28 page 15 of 60). c. Fees from cash advances on the corporate charge cards (via ATMs) do not exceed the maximum limit. d. Advances are not provided to any traveler who is 30 days delinquent in submitting a travel expense report for a prior trip (except in extenuating circumstances).	**4.** No cash advances occurred in the samples we tested.

SMG & Deans' Entertainment

Work Performed	Results

We generated an MS Access query of the FIS database to identify employee entertainment reimbursements from which SMG members and deans could be sampled. Of the ten members of the SMG, only three had sufficient entertainment expenses for detailed testing. These three included the chancellor who we did not include in this review, as a separate, annual review (G-45) will be done for his expenses. Of the seven deans, five had expenses sufficient for detailed testing, as outlined in the system-wide Audit Program.
 	
Our detailed testing included the following
 	
1. Determine if the transactions were:
 	
   a. signed by the employee who prepared the reimbursement voucher.
   b. approved by an individual with the appropriate delegated approval authority
   c. within the maximum allowed rates for entertainment.
   d. appropriate given the funding source.
   e. in compliance with BUS-79.
 	
2. Verify all pertinent information has been included in the reimbursement request such as:
 	
   a. List of attendees.
   b. Provide a business justification.
   c. For reimbursements under $75, appropriate written certification should be obtained where warranted and required. (Ref: purchase of alcohol)
   d. Expense of $75 or more is supported by an original itemized receipt.
 	
3. For any entertainment transactions that exceeded the maximum allowable rate, determine if the transactions included a written justification as to why the higher costs were unavoidable and necessary to achieve university business purpose. Verify the exception was approved by an individual with the appropriate delegated approval authority.
	1. Transactions were signed by the employee who prepared the reimbursement voucher; they were approved by an individual with the appropriate delegated approval authority; were within the maximum allowed rates for entertainment except for one; the expenses were appropriate given the funding source; and they were in compliance with BUS-79.
	
	2. Reimbursement requests included lists of attendees; provided a business justification; for reimbursements under $75, appropriate written certification was obtained where warranted and required (e.g. purchase of alcohol); and for expenses of $75 or more there were original itemized receipts.
	
	3. Of the samples tested, there was only one that exceeded the maximum allowable rate. There was a written justification and the exception was approved by an individual with the appropriate delegated approval authority.

Departmental T&E Procedures and Controls Identifying Departments	
Work Performed	**Results**
By means of InfoView and MS Access queries, we identified the top five departments for travel and for entertainment.	Transactions related to these departments were handled by divisional business offices as follows: • Baskin School of Engineering: Computer Science and Electrical Engineering. • Physical & Biological Sciences: Molecular & Cell Development, Biology, Institute of Marine Sciences, Ecology & Evolutionary Biology, Santa Cruz Institute for Particle Physics. • Social Sciences: Psychology and Environmental Studies. • Humanities: History. • University Relations: Divisional Development, Divisional Clearing, and Stewardship/Donor Recognition. • University Library.

Departmental T&E Procedures and Controls Interviews	
Work Performed	**Results**
We interviewed business office managers, budget analysts and research accountants who implement procedures and controls for reviewing and approving travel and entertainment reimbursements and costs charged directly to the university. We discussed the following:	In summary, we were satisfied the procedures and controls were adequate to provide reasonable assurance of compliance with policies. There were two areas where we found opportunities for improvement of efficiency: 1) the travel review process; and 2) the ERF system.
• Review of expenses to reasonably ensure compliance with university and campus policies.	**1.** Travel Review Process
• Whether the personnel conducting reviews and their method provided assurance that the costs incurred were in support of appropriate university business.	When discussing review of travel vouchers and supporting documents with divisional personnel, we were told that their responsibility was to obtain the signoff of the fund manager/owner (tier 1 approver) that assures the funds can be used to pay the travel expenses, and to fulfill the responsibilities of the tier 2 approver that the Financial Affairs Office requires of them, viz.:
• Whether individuals reviewing expenses for compliance and propriety understood their role and responsibility to question employees when appropriate to gain additional information needed to process and approve expenses.	• Check availability of funds.
• Whether the review process is accomplished through a system that assures review occurs in an efficient manner that minimizes duplicate, unnecessary reviews and approvals.	• Review the data for legitimacy and appropriateness of expense against appropriate Org/Fund.
• Whether the primary reviewer reports directly to the person submitting the voucher.	• Verify appropriate expenditure-authorized signatures kept within the unit.
• Whether employees have access to adequate information and/or guidance to understand policies and fulfill their responsibilities when submitting vouchers.	• Submit the completed forms and adequate documentation to FAST.
	• Submit 204 forms.
	They said a review for compliance with UC travel policy was the responsibility of FAST. The division of labor between the divisions and FAST occurred when the Service Centers in the divisions were closed and FAST was created to obtain savings. This meant that divisions gave up FTE to FAST. According to the people we spoke to, they cannot be expected to carry the same workload with fewer people, and FAST has continued the payment processing and review workload with the people it acquired from the divisions.

Departmental T&E Procedures and Controls Interviews (continued)	
Work Performed	**Results**
	Aside from their assertions of responsibilities, we found that the practice of detailed reviews may take place at the divisions, because personnel there are familiar with the requirements of university, campus and divisional policies and may have conducted such reviews when they were part of the divisional service center. There is a big difference however between the review they may choose to do and one they are responsible to do. The crucial point is the workload, which has been further affected by budget cuts.
	Further, there is some overlap between research accountants' review and FAST's review, as research accountants have knowledge and familiarity with requirements of research grants. Still, a research accountant manager we spoke to said her people are not required to perform detailed review. When asked what a detailed review would consist of she gave as an example the calculation of amounts, including currency conversion.
	In discussions with FAST & FAR, we learned that detailed review is creating a workload problem for them too. Our report on Travel & Entertainment Policies SC-12-51 described duplication of effort between divisional and central office reviews.
	While there is an opportunity to obtain more efficiency, we believe it is important to proceed by reexamining the entire process and getting input from both divisional and central office staffs. An initial step would be to identify the requirements of a detailed review that satisfy policy and address the underlying risks that policy is meant to control. An analysis would follow of what information is needed to conduct such a review and who is in the best position to obtain that information and who should review it. A division of labor could be determined with assigned responsibilities. This would require a hard look at workload capabilities, the extent of review those capabilities reasonably allow, residual risk when review is restricted and how to manage it. Refer to Section III - Observation Requiring Management Corrective Action - Travel Review Process.

Departmental T&E Procedures and Controls Interviews (continued)	
Work Performed	**Results**
	2. The ERF System The majority of people we spoke to in the divisions who use this system told us that it requires more time from them than the paper-based process it replaced. Financial Affairs is hopeful that this will change as users become more familiar with the system, and system enhancements, such as online approvals, are implemented. We found compliance with entertainment policy was robust under the new system. The two factors of cost and benefit give rise to the question of whether the cost of added compliance is justified. This question will have to be addressed, but that should wait until enhancements planned for 2013 have been fully implemented and users have gained familiarity with them. Perhaps by 2014, the system and its use will have gained sufficient maturity for an accurate assessment.

General Accounting: FAR and FAST	
Work Performed	**Results**
We met with FAST managers, a FAST team member, the manager of General Accounting, and the manager of Communications & Training from the Controller's Office (who addressed ERF questions). We discussed the same topics as we did with divisional/department staff.	Travel • FAST conducts reviews of travel vouchers and their supporting documents. However, it has limited resources and therefore the manager of General Accounting expressed his determination to speak with the controller about limiting these reviews. This could be problematic, because divisions expect FAST to provide reviews for compliance with general policies and recalculation of post-travel reimbursements, whereas they can only be expected to provide a reviews for specific fund restrictions and divisional policies, and other responsibilities described in the 2nd Tier Accountability Agreement. • FAR provides weekly audits of direct payment requests that have been reviewed by FAST, but not yet paid. They choose every reimbursement equal to or greater than $5,000 and every 20th reimbursement request. Entertainment • The ERF system provides assurance of compliance with UC entertainment policy and is an improvement over the assurances of compliance provided by the previous paper-based system. • Training for the system is provided online and in person by request. • Meetings are held every two months with users to discuss problems and solutions. • Requirements of the system have been changed in response to user input. • System improvements have occurred and are planned, such as electronic approvals scheduled for January 2013.