

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES**

**Travel and Entertainment Review
Project #20-043**

January 2020



University of California
San Francisco

Audit & Advisory Services

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SUBJECT: Travel and Entertainment Review

As a planned internal audit for Fiscal Year 2020, Audit and Advisory Services (“A&AS”) conducted a review of Travel and Entertainment. The purpose of this review was to assess the adequacy of the internal controls and processes in place to ensure that the travel and entertainment expense reimbursements are appropriate and in accordance to policy.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

Our review was completed and the preliminary draft report was provided to department management in November 2019. Management provided their final comments and responses to our observations in January 2020. The observations and corrective actions have been discussed and agreed upon with department management and it is management’s responsibility to implement the corrective actions stated in the report. A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

Irene McGlynn
Chief Audit Officer
UCSF Audit and Advisory Services



EXECUTIVE SUMMARY

I. BACKGROUND

As a planned audit for Fiscal Year 2020, Audit & Advisory Services (A&AS) conducted an internal controls review of the Campus and the UCSF Health’s Travel and Entertainment (T&E) expense reimbursements. In August 2018 the Accounts Payable function and management of employee reimbursement expenses became under the purview of Supply Chain Management (SCM).

The expense reimbursement process including the submittal, processing, and approval of expenses is automated via a system called Concur (a.k.a. “MyExpense”). On November 1, 2019, Accounts Payable began using a new module within Concur called Concur Detect to identify duplicate payments across multiple expense reports. Concur Detect works in conjunction with MyExpense to analyze expense report information using artificial intelligence, machine learning, and other data technologies such as optical character recognition to analyze expense reports for errors, and potential fraud.

The University policies governing travel and entertainment expenses are G-28 “UC Travel Regulations Policy” and Business Finance Bulletin BUS-79 “Expenditures for Business Meetings, Entertainment and Other Occasions.” These policies require expense reports to be supported by receipts, business purpose and have set expense limits. Exceptions to the policies require additional approvals.

For FY19, the Campus and the UCSF Health incurred a total of \$48M, and \$15.6M respectively in travel and entertainment expenses. The table below shows the amounts by categories.

| | Campus | UCSF Health |
|------------------------|--------|-------------|
| Travel & Lodging | \$27M | \$15M |
| Dining & Entertainment | \$21M | \$615K |

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess the adequacy of internal controls and processes in place to ensure that the travel and entertainment expense reimbursements are appropriate and in accordance to policy. The scope of the review covered transactions and activities for the period of July 1, 2018 to June 30, 2019.

To conduct the review, the following procedures were performed:

- (1) Reviewed UC T&E policies to gain an understanding of the policy requirements;
- (2) Extracted T&E reimbursement data along with corporate card transactions;
- (3) Performed data analytics to identify potential fraud risks (duplicate and unusual/high claims);
- (4) Validated testing of a sample of T&E reimbursements and corporate card transactions to ensure: expenses are in compliance with the travel policy, adequate supporting documentation exists, and appropriate authorization was performed;
- (5) Verified that any deviation from policy is reasonable and has exceptional approval;

- (6) Assessed the adequacy of Supply Chain Management's (SCM) auditing and monitoring process;
- (7) Reviewed SCM's audit rules in Concur for efficiency and completeness; and
- (8) Assessed the timeliness of settling travel advances.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in November 2019.

III. SUMMARY

Based on work performed, travel and entertainment expense reimbursements were generally in compliance with University and UCSF policies. Overall, expenses claimed for reimbursement were for bona fide University business purposes and were substantiated in compliance with University policies. Expense reports and other records were found to be properly approved, including exceptional expenses.

While we did not identify any significant control deficiencies during our review, we noted opportunities for enhancements to the travel and entertainment reimbursement process, including assessment of the effectiveness of the audit rules; creating annual training to educate the departments on the importance of reviewing expense reports; management of travel advances; and identifying the purchase of non-meeting and entertainment expenses in Concur for compliance to policy.

The specific observations from this review are listed below as well as in Section IV. Observations and Management Corrective Actions.

1. The Concur system does not have audit rules set up to detect alcohol being charged to federal/state funds.
2. Certain features within the Concur system are not fully utilized and some audit rules are not risk based creating inefficiencies and increased workloads for the back-office to review.
3. The Concur system is not configured to ensure that reimbursements are authorized by personnel that do not report directly or indirectly to the employee seeking reimbursement.
4. Approvers are not always reviewing receipts prior to approving the T&E expenses for payment.
5. Outstanding travel advances are not resolved timely, and not in compliance with policy.
6. Some departments are using Concur to purchase computer software, thereby bypassing IT security assessment.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

| No. | <u>Observation</u> | <u>Risk/Effect</u> | <u>Recommendation</u> | <u>MCA</u> |
|------------|--|--|---|--|
| 1 | <p><i>The Concur system does not have audit rules set up to detect alcohol being charged to federal/state funds.</i></p> <p>During the testing of T&E expenses, four out of fifteen transactions which included alcohol expenses were charged to a federal/state fund. The alcohol charges ranged from \$15 to \$52.</p> <p>According to BUS-79 “Expenditures for Business Meetings, Entertainment and Other Occasions”, alcohol may not be charged to a federal or state fund. Additionally, per the code of Federal Regulations, 2CFR § 200.423, alcoholic beverages are unallowable grant costs.</p> | <p>Charging alcohol to a federal or state fund is a violation of BUS-79 policy and the Federal Regulations 2CFR § 200.423.</p> | <p>SCM should consider creating an audit rule to detect and flag the charging of alcohol to federal/state fund for the back-office to review,</p> <p>SCM should educate and reinforce policy requirements prohibiting charging of alcohol to federal /state funds to the University community</p> | <p>a. SCM will evaluate the functionality of using Detect to flag alcohol charges. Additionally, SCM will consider the configuration requirements during the re-implementation of Concur after the integration of travel and expense.</p> <p>Target Date: November 30, 2020</p> <p>b. SCM will communicate the importance of not charging alcohol to federal/state funds in Accounts Payable work group meetings.</p> <p>Target Date: March 1, 2020</p> <p>Responsible Party: Associate Chancellor, Supply Chain Management</p> |

| No. | Observation | Risk/Effect | Recommendation | MCA |
|-----|---|--|--|---|
| 2 | <p><i>Certain features within the Concur system are not fully utilized and some audit rules are not risk based creating inefficiencies and increased workloads for the back-office to review.</i></p> <p>Some of the audit rules are not necessarily risk-based creating additional reviews for the SCM’s back-office. A number of features are available in Concur that if utilized can reduce the number of back office audit reviews and create efficiencies. These include:</p> <ul style="list-style-type: none"> a. Guest expenses – all guest expense reports are currently routed to SCM’s back-office for review regardless of dollar threshold, and even where there are no exceptions. A guest certification form is required to be completed and certified by the guest and attached to the reimbursement claim and this certification is often completed by the department representative. The guest certification feature in Concur allows departments to attest the legitimacy of the expense on behalf of the guest traveler directly in MyExpense, but this feature is not utilized. b. Meal limit exceptions – a number of false positives exceptions occur related to the over-the-per person meal limit rate due to the list of attendees being scanned into Concur in lieu of entering each attendee into the system.¹ By integrating the Microsoft Outlook calendar invite into MyExpense will allow the system to determine whether meal limit has been exceeded and reduce the number for back office review. | <p>By not reviewing audit rules for efficiencies, SCM risks performing more audits/reviews without adding value, i.e., additional detection of T&E non-compliance to policy.</p> | <p>SCM should consider evaluating existing audit rules based on risk, and consider the feasibility of greater use of Concur Audit Service to create more efficiency.</p> <p>To reduce the excessive use of miscellaneous expense type, SCM to consider establishing more expense types. Also SCM should establish criteria for evaluating expenses charged to “Miscellaneous Expense” to reduce the level of review.</p> | <ul style="list-style-type: none"> a. As part of the re-implementation of the Concur project SCM will review the existing audit rules as well as perform tests on new audit rules, and if the tests are successful, SCM will implement change management. b. SCM will address adding more expense types to reduce the excessive use of miscellaneous expense type in the re-implementation of Concur. <p>Target Date: November 30, 2020</p> <p>Responsible Party: Associate Chancellor, Supply Chain Management</p> |

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|-----|---|--|--|--|
| | <p>c. Miscellaneous Expenses – SCM performs 100% back office review of all expenses classified under miscellaneous expense type. This is resource intense and often results in re-classification of the expense and yields limited value. Incorporating additional expense types as well as determining risk levels for triggering back office review will create efficiency.</p> <p>d. Concur Audit Services – this feature is not fully utilized as a monitoring function.</p> | | | |
| 3 | <p><i>The Concur system is not configured to ensure that reimbursements are authorized by personnel that do not report directly or indirectly to the employee seeking reimbursement.</i></p> <p>UC travel and entertainment policies require that reimbursement requests should not be approved by a subordinate person who reports directly or indirectly to the employee seeking reimbursement.</p> <p>The Concur system has not been designed to identify the supervisors for travelers as this would require constant maintenance when personnel transfer between departments or leave the University. Additionally, the approval workflow process allows employees to choose their approvers thereby introducing risks.</p> | <p>When transactions are not authorized by an appropriate individual, then the review process may be ineffective.</p> | <p>SCM should consider producing a periodic report to monitor for appropriate approvals of Concur transactions by the authorized official.</p> | <p>SCM will assess the feasibility of generating a report to periodically monitor for appropriate approvals of Concur transactions by the authorized official.</p> <p>Target Date: November 30, 2020</p> <p>Responsible Party: Associate Chancellor, Supply Chain Management</p> |
| 4 | <p><i>Approvers are not always reviewing receipts prior to approving the T&E expenses for payment.</i></p> <p>Data analytics for FY19 was performed, yielding 22% of expense reports reviewers did not open the attached receipts in Concur for examination prior to approving the T&E expense. For exceptional approvals, 6% of the</p> | <p>Without effective review of supporting receipts could lead to inappropriate expenses being reimbursed to employees.</p> | <p>SCM should consider running a report to identify expense receipts not reviewed and communicate and educate the departments on the</p> | <p>a. Once identified, both the duplicate payment and the personal travel expense have been</p> |

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|----------|--|--|---|--|
| | <p>time, exceptional approvers did not open the receipt for review. Also, please refer to Appendix A for data analytics of exceptional expenses by control point as a percentage of the total expense reports.</p> <p>As part of our test sample of reimbursement claims (20 duplicate claims and 15 exceptional approval), we identified a duplicate claim and personal travel that were not identified by the expense report reviewer/approver at the department level.²</p> | | <p>importance of reviewing receipts when approving expenses.</p> | <p>paid back to the University.</p> <p>b. SCM will work with A&AS to run a report to identify expense receipts not reviewed and communicate and educate the departments accordingly.</p> <p>Target Date: February 28, 2020</p> <p>Responsible Party: Associate Chancellor, Supply Chain Management</p> |
| <p>5</p> | <p><i>Outstanding travel advances were not always resolved timely, and not in compliance with policy.</i></p> <p>As of September 30, 2019, three employees had travel advances that were outstanding for at least 9 months and SCM was working with the department on returning the funds, or otherwise tax the employee. Staffing changes within SCM and issues with the tracking system hindered effective follow-up with departments.</p> <p>Per the G-28 policy, "If an employee fails to substantiate and return any unused cash advance amounts within 120 days of the end of a trip, the University is obligated</p> | <p>By not resolving travel advance timely, increases risks of violation of IRS regulations and the G-28 Travel Regulations policy.</p> | <p>SCM should work with departments to resolve travel advances timely to avoid violating IRS regulations.</p> | <p>SCM will consider implementing the Corporate Pay, Corporate Liability card that would help lessen the need for travel advances.</p> <p>Also, SCM has hired additional personnel to clear the travel advances backlog.</p> |

² Duplicate meal claim of \$34.81 by two employees. One instance of travel claim of \$1,862 for Maryland included \$865 for personal travel that was not identified by the approver.

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|-----|--|---|--|---|
| | <p>under IRS regulations to consider such amounts as income to the employee.”</p> | | | <p>Target Date: February 28, 2020</p> <p>Responsible Party: Associate Chancellor, Supply Chain Management</p> |
| 6 | <p><i>Some departments are using Concur to purchase computer software thereby by-passing IT security assessment.</i></p> <p>Some departments are bypassing IT security assessment by not using BearBuy³ to purchase software. There were 15 instances of computer software being purchased via Concur, totaling \$3,792.</p> <p>According to the UC Electronic Information Security Policy (BFB IS-3), all systems that create, store, process, or transmit data internally at UCSF or externally through a supplier or other third party must be assessed for security risk. This step is integrated into the BearBuy’s software and cloud computing form instructions.</p> | <p>By not using BearBuy to purchase computer software, security assessment for the software cannot occur, thus increasing security risks to UCSF.</p> | <p>SCM should consider implementing procedures to detect non-meeting and entertainment expenses to determine whether the expenses should be processed via Concur or BearBuy and educate the departments accordingly.</p> | <p>SCM will conduct outreach and education on the importance of using BearBuy to purchase computers and software.</p> <p>Target Date: February 28, 2020</p> <p>Responsible Party: Associate Chancellor, Supply Chain Management</p> |

³ BearBuy is the UCSF campus e-Procurement system for purchasing goods and services. It is an online application that automates many aspects of the procurement process including: requisition creation and approval, sending purchase orders to suppliers, invoice approval and payment.

APPENDIX A: Exceptional Expenses by Control Point Area

| Control Point | Count of Expense Reports with at least One Exceptional Expense* | Total Expense Reports | % of Total Expense Reports |
|---------------------------|---|-----------------------|----------------------------|
| Development | 20 | 1,465 | 1% |
| Diversity & Outreach | 21 | 332 | 6% |
| Executive Vice Chancellor | 281 | 3,638 | 8% |
| Finance & Administration | 26 | 1,965 | 1% |
| Global Health Sciences | 41 | 2,173 | 2% |
| Legal Affairs | 0 | 55 | 0% |
| Office of the Chancellor | 0 | 51 | 0% |
| School of Dentistry | 372 | 3,581 | 10% |
| School of Medicine | 1,850 | 60,009 | 3% |
| School of Nursing | 21 | 2,245 | 1% |
| School of Pharmacy | 230 | 4,011 | 6% |
| UCSF Health | 90 | 8,694 | 1% |
| University Relations | 5 | 286 | 2% |
| Grand Total | 2,957 | 88,505 | 3% |

*The data gathered in this table comes from employees who self-reported their exceptional expenses.

APPENDIX B: Exceptional Expenses by Category in Dollars for FY19

| Control Point | Morale Building (\$) | Non-Coach Airfare (\$) | Per Person Limit (M&E) (\$) | Spouse Attendee (\$) | Grand Total (\$) |
|---------------------------|----------------------|------------------------|-----------------------------|----------------------|------------------|
| Development | - | - | 14,727 | - | 14,727 |
| Diversity & Outreach | - | - | 4,946 | - | 4,946 |
| Executive Vice Chancellor | - | 4,181 | 72,299 | - | 76,479 |
| Finance & Administration | - | 11,797 | 11,809 | 1,582 | 25,188 |
| Global Health Sciences | - | 21,597 | 18,481 | - | 40,078 |
| Legal Affairs | - | - | - | - | - |
| Office of the Chancellor | - | - | - | - | - |
| School of Dentistry | - | 40,548 | 106,675 | 15,095 | 162,318 |
| School of Medicine | 1,779 | 665,491 | 515,502 | 90,863 | 1,273,634 |
| School of Nursing | - | 1,303 | 9,501 | - | 10,804 |
| School of Pharmacy | - | 37,991 | 106,849 | 6,331 | 151,171 |
| UCSF Health | - | 37,331 | 31,519 | 1,493 | 70,344 |
| University Relations | 516 | - | 129 | - | 645 |
| Grand Total | 2,295 | 820,238 | 892,437 | 115,365 | 1,830,335 |