

UC MERCED AUDIT AND ADVISORY SERVICES

October 3, 2014

To: Michael Reese, Vice Chancellor of Business and Administrative Services

Subject: Audit of UC Merced's Travel and Entertainment Card Program

Ref: Report No. M15A001: Review of the Travel and Entertainment Card Program

Internal Audit has completed an audit of UC Merced's Travel and Entertainment Card Program. This audit was part of the Fiscal Year 2014 – 2015 audit plan. We will perform follow up procedures in the future to review the status of management action.

We appreciate the help we received from Accounting Services and Travel Services staff during the audit. If you should have any questions, please feel free to contact me.



Todd Kucker
Internal Audit Director

Attachment

cc: SVP Vacca
Chancellor Leland
Associate Chancellor Putney
Assistant Vice Chancellor Riley
Director Groesbeck
Travel Coordinator Dias

**UNIVERSITY OF CALIFORNIA, MERCED
AUDIT AND ADVISORY SERVICES**

**Review of the Travel and Entertainment Card Program
Report No. M15A001**

October 3, 2014

Work performed by:
Brandi Masasso, Internal Audit Analyst

Management Summary

Internal Audit has completed an audit of the UC Merced Travel and Entertainment Card Program. Based upon our audit testing, we concluded that the Travel and Entertainment Card program is adequately managed by the Office of Travel Services. Overall, it appears that expenses are properly reviewed to ensure that the expenses comply with University policies.

During the audit, we identified the following areas for improvement, which are further discussed in the following report.

- Consequences for T&E Card misuse should be consistently administered
- The use of data analytics software would improve the efficiency and effectiveness of review processes
- Procedures to identify separating cardholders and outstanding card balances before cardholders leave the University should be strengthened

Purpose and Scope

Internal Audit has completed an audit of the UC Merced Travel and Entertainment Card Program, as part of the Fiscal Year 2014 – 2015 audit plan. The purpose of the audit was to evaluate processes and procedures in managing the local Travel and Entertainment Card Program.

The audit objectives were to determine whether cards are only used for business-related travel and entertainment in compliance with UC policy and to review local management of the Travel and Entertainment Card Program.

Audit testing included activities related to issuing new cards, monitoring spending, deactivating cards when cardholders separate from the university, and overall management of the program. The audit focused on activities and transactions during the year ended June 30, 2014.

Overview of the Travel and Entertainment Card Program

The UC Merced Travel and Entertainment (T&E) Card is a US Bank Visa card provided to University travelers free of charge as a tool for charging University related business travel and entertainment expenses. The card benefits employees as they don't have to use their own funds and then seek reimbursement.

The UC Merced T&E card is a program that is managed by UCLA and interfaces with the UCLA Express Reimbursement System. UC Merced uses the UCLA Express System to process travel expenses and reimbursements. Express is an online travel expense reporting system that allows travelers and proxies to create travel expense reports in

Express and route them to the appropriate reviewers before being submitted to UCLA for processing.

Unlike personal credit cards, the T&E card is a charge card which means the balance is due in full at the statement date. While various employees may be involved with processing the expense reimbursements, it is the individual cardholder's responsibility to ensure that the bill is paid in full within sixty days from the end of the billing cycle. If the outstanding expenses are not paid within sixty days, the cardholder will be billed a late payment fee based on the outstanding balance. No matter who may be at fault for delays in processing travel reimbursement, the University requires the cardholder to personally pay for late fees.

The T&E Card program is locally managed by the UC Merced Travel Coordinator in Accounting Services. The Travel Coordinator's responsibilities include training employees in travel policies and procedures, working closely with the UCLA Travel Office to provide assistance to UC Merced travelers, and periodically monitoring card usage to verify that cards are used appropriately.

BFB G-28 Policy and Regulations Governing Travel and *BFB BUS-79 Expenditures for Business Meetings, Entertainment, and Other Occasions* are the UC Policies that comply with IRS regulations regarding the provision or reimbursement of business meals, entertainment and Travel.

Benefits and Difficulties with the T&E Card

The following are a couple of the benefits of the T&E Card to Cardholders and the University.

- The T&E Card eliminates out-of-pocket expenses for University travelers conducting business on behalf of the University.
- Card expenditures are uploaded into the Express System which is designed to streamline the reimbursement process.

The following are some of the risks and difficulties with the T&E Card.

- The main risk related to the T&E Card is that if a cardholder defaults on paying an outstanding balance, the University would be responsible for paying the balance. This risk increases when a cardholder separates from UC Merced with an outstanding T&E Card balance.
- As risk to the university is not immediately apparent to some cardholders, there have been many cardholders who have used the card for personal expenses. The majority of cardholders then just pay off the personal expenses like they would with their personal credit cards. This is a violation of cardholder agreement where cardholders agree to only use the card for business related expenses.

- Some employees and departments struggle to get reimbursements completed in time to avoid late charges. UC Policy allows travelers sixty days to submit their travel receipts for reimbursement, but the T&E card requires reimbursements to be completed more quickly. Also, there are sometimes delays during the audits completed by the UCLA Travel Office.
- Employees feel unjustly penalized when delays in the reimbursement process result in late fees for which they are responsible. Accounts are sometimes suspended and cardholders are unable to continue using the card until the late charges are paid.

Conclusion

From the audit testing, we concluded that the T&E card program is adequately managed. Overall, it appears that expenses are properly reviewed to ensure that the expenses comply with University policies. We did identify areas where processes could be improved:

Areas for improvement

- Consequences for T&E Card misuse should be consistently administered
- The use of data analytics software would improve the efficiency and effectiveness of review processes
- Procedures to identify separating cardholders and outstanding card balances before cardholders leave the University should be strengthened

Accounting Services is currently working with the UCLA Travel Office to oversee more responsibilities for the UC Merced T&E Card Program. Transferring responsibilities for travel exceptions and banking processes to UC Merced should reduce delays in the reimbursement process.

Observations and Management Action Plans

1. Consequences for T&E Card misuse should be consistently administered

During the review of spending, we noted various cardholders who had personal expenses on their cards. Cardholders are aware that the cards are not to be used for personal expenses as they sign a cardholder agreement that reads: “I understand and agree that this T&E Card is for business-related expenses only and that failure to comply may result in disciplinary action, including termination.” Some cardholders have run up large balances which they cannot quickly repay.

Accounting Services and the Travel Coordinator currently spend time notifying department management when employees misuse their cards. When misuse has resulted in large card balances and late fees, plans for paying down balances have sometimes been set up with cardholders.

We recommend that consequences of card misuse be outlined in a campus T&E Card procedure, approved by campus leadership, and then be consistently applied for misuse.

Management Action Plan

The T&E application, guideline, and online training specifically state that the T&E card cannot be used for personal expenditures. If an employee inadvertently uses the T&E card for a personal expense they will be notified to make the payment personally and provided with a written warning by Travel Services. If it is determined that a second misuse of a T&E card occurs, the account will be immediately closed and the employee will no longer be eligible to participate in the card program. If there is blatant personal misuse of the T&E card, the employee will be notified and the account closed immediately and the employee will be no longer eligible to participate in the card program. To communicate and formalize these established rules, we will request that the process be approved by the Vice Chancellor for Business and Administrative Services and communicated campus wide by November 30, 2014.

2. The use of data analytics software would improve the efficiency and effectiveness of review processes

During the audit, we reviewed the Travel Coordinator's procedures for monitoring card activity. Current procedures result in reviewing a cardholder's spending once a year. She also analyzes past due amounts where transactions have not been attached to a reimbursement request in order to identify personal expenses.

While current procedures appear to identify personal expenses, the use of data analytics software could be set up to efficiently identify unusual spending by cardholders. The following are examples of tests that could be run to identify unusual T&E card spending:

- Purchases from vendors for which travel and entertainment expenses might be difficult to justify (for example, Amazon);
- Transactions with vendors with unusual merchant category codes (MCC's), such as florists, bookstores, cable services, and public golf courses; and,
- Purchases at local restaurants on weekends and holidays.

The software could also be utilized to review unusual trends in spending. For example, during the audit we used data analytics software to identify all active cardholders who did not use the card during Fiscal Year 2013 – 2014. Of the 374 open cards, that was no spending on 54 (14%) of the cards. This simple test could be used to determine whether certain cardholders really need a T&E card. Cardholders could also be periodically

compared with the current employee listing to verify that cards of separated employees have been closed.

We recommend that Accounting Services utilize data analytics software to audit all of T&E cards for unusual activity or inactivity. This would allow for the Travel Department to perform data analysis on a large volume of data at one time and identify the unusual activity or inactivity patterns in the data. Improving the review process would ensure a comprehensive approach to continuously monitoring cardholder activity.

Management Action Plan

Travel Services staff will participate in training on the auditing software and begin to utilize it to more effectively to timely audit T&E cards. Training will be completed by October 31, 2014.

3. Procedures to identify separating cardholders and outstanding card balances before cardholders leave the University should be strengthened

During the audit, we reviewed the current processes and procedures in place for separated employees that have T&E cards. Currently, it is the responsibility of the department to notify Accounting Services prior to their employee separating and to obtain their T&E card at the time of their exit interview. Once the Travel Department has been notified by the department, the Travel Coordinator will then audit the separating employee's US Bank account. If there is any outstanding balance on the T&E card, the Travel Coordinator then notifies the department and it is the department's responsibility to make sure that the balance has been cleared. US Bank is then notified that the account needs to be closed. If a department does not notify Accounting Services of their employee's separation, the Travel Coordinator would only find out about the separated employee when there is an outstanding balance left on the T&E card and late fees were applied to the account. Late fees start to accumulate on unpaid balances sixty days after the transaction date.

Identifying outstanding T&E card balances after the employee separates from the university increases the likelihood that the campus will be required to pay for the remaining balances.

We recommend setting up better processes to identify those separated employees. Additional training of department MSO's and proxies regarding T&E Card procedures for separating employees would help prevent these situations. Additionally, periodic monitoring of current employees and better communications with department MSOs regarding T&E cards assigned to their department would allow for proactive approach on identifying separated employees in the beginning stages of the separation process.

Management Action Plan

Travel Services will work with the necessary departments to create a formalized process for notification of separating/terminating employees from campus departments and/or personnel/payroll offices. This notification should be in advance to ensure that any balance that may exist on the T&E card account can be finalized prior to leaving employment. Additionally, Travel Services will work with the necessary departments to create a weekly query from the payroll system to ensure that appropriate notification is received to complete a final review of account balances. This process will be completed by November 30, 2014.