



AUDIT AND ADVISORY SERVICES

Travel and Entertainment Expenses – SMG Members and Deans Project No. 13-612

March 14, 2013

Prepared by:

Desmond Hamilton
Auditor-in-Charge

Reviewed by:

Approved by:

Jaime Jue
Associate Director

Wanda Lynn Riley
Chief Audit Executive



AUDIT AND ADVISORY SERVICES
Tel: (510) 642-8292

611 UNIVERSITY HALL #1170
BERKELEY, CALIFORNIA 94720-1170

March 14, 2012

George Breslauer
Executive Vice Chancellor & Provost

John Wilton
Vice Chancellor – Administration and Finance

Beata FitzPatrick
Associate Chancellor
Chancellor's Immediate Office

Executive Vice Chancellor & Provost Breslauer, Vice Chancellor Wilton, and Associate Chancellor FitzPatrick:

We have completed our audit of travel and entertainment expenses for Senior Management Group members and Deans in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*, the University of California Internal Audit Charter, and the prescribed systemwide audit program.

Attached is our audit report including observations and management action plans. Thank you to the Chancellor's Immediate Office, the Office of Executive Vice Chancellor & Provost, the staff of the Vice Chancellor – Administration and Finance, and other departmental management and staff for their cooperative efforts throughout our audit process.

Please destroy all copies of draft reports and related documents. Also, 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,

Wanda Lynn Riley
Chief Audit Executive

cc: Coordinator of Analytical Studies & Control Unit Administration Jeanene Greer
Project/Policy Analyst Lynn Geske-Morgan
Associate Vice Chancellor – CFO Erin Gore

Assistant Vice Chancellor & Controller Delphine Regalia

Chief of Staff Ann Jeffrey

Associate Chancellor Linda Morris Williams

Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca

University of California, Berkeley
Audit and Advisory Services
Travel and Entertainment Audit - SMG Members and Deans

Table of Contents

OVERVIEW	2
Executive Summary	2
Audit Objective	4
Audit Scope	4
Background	4
Audit Methodology	5
Summary Conclusion	5
SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN	7
Inconsistent Review and Approval of the Chancellor’s Expenses	7
Inconsistent Allocation of Chancellor’s Expenses to Individual Accounts and Funds	8
Expenses for SMG Members and Deans Not Approved by the Designated Vice Chancellor or High-level Individual	9

OVERVIEW

Executive Summary

As part of our FY2013 audit plan, we conducted an audit of travel and entertainment expenses for members of the Senior Management Group (SMG) and deans. This audit was conducted as part of simultaneous systemwide audits at all ten campuses to determine compliance with Business and Finance Bulletin (BFB) G-28, *Travel Regulations*, and BFB BUS-79, *Expenditures for Business Meetings, Entertainment, and Other Occasions*. The overall audit program and approach was determined by the Office of Ethics, Compliance and Audit Services (ECAS) in the UC Office of the President.

The scope of the audit consisted of FY2012 travel and entertainment expenses. The systemwide audit program included walkthroughs of expense review and approval processes and controls at the five departments with the greatest travel and entertainment amounts in FY2012. Detailed testing of individuals' expenses was conducted for those SMG members and deans with combined travel and entertainment expenses exceeding \$5,000 for the fiscal year.

Based upon our audit procedures, we did not have any reportable observations related to walkthroughs of processes and controls at the five departments in our sample. The processes and controls for monitoring, reviewing, and approving travel and entertainment were generally consistent with BFB G-28 and BUS-79.

With respect to our detailed review of individual expense items, we did not note any patterns of inappropriate expenses among either the SMG or deans group samples. We did note instances where documentation of the business nature of the expense could be improved and we communicated our observations to the individual departments preparing the expense reports.

With respect to the Chancellor's travel and entertainment expenses, we noted that processes and controls related to the Chancellor's Immediate Office monthly preparation of documentation to support review and approval of the Chancellor's American Express (AMEX) bill by the Controller's Office were not operating effectively for several months during the second half of our FY2012 audit period. We understand that while the process was working from July 2011 through February 2012, the departure of certain individuals from the Chancellor's Immediate Office in early 2012 may be the root cause for the process not subsequently operating effectively.

In addition, we noted that payment requests for the Chancellor's AMEX card after May 25, 2012 do not appear to be appropriately allocated to expense accounts and source funds according to the nature of the charge.

Lastly, we noted instances where travel and entertainment expenses for SMG members and deans were reviewed and approved through departmental procedures rather than by through the Executive Vice Chancellor & Provost's (EVCP) Office. Based upon our inquiry, we noted that if the SMG member or dean were travelling or entertaining in their role as a departmental faculty member, rather than in their management capacity, departmental staff were processing such

expenses through departmental processes rather than submitting it to the EVCP Office. We note that there is no current distinction between an SMG member or dean functioning as a department faculty member or as a member of management with respect to the approval process for their expenses.

We have discussed these observations with relevant University officials for each observation and have obtained management action plans that we believe, if implemented, will address the observations we noted going forward.

Audit Objective

Per our FY2013 audit plan, we conducted an audit of travel and entertainment expenses for members of the Senior Management Group (SMG) and deans. This audit was conducted as part of simultaneous systemwide audits at all ten campuses to determine compliance with Business and Finance Bulletin (BFB) G-28, *Travel Regulations*, and BFB BUS-79, *Expenditures for Business Meetings, Entertainment, and Other Occasions*. The overall audit program and approach was determined by ECAS and included the following objectives:

- The campus 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, deans, and selected departments reviewed provide reasonable assurance of compliance with University policies and costs incurred are for a business purpose and UC benefit; and
- 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.

Audit Scope

The scope of the audit consisted of FY2012 travel and entertainment expenses. The systemwide audit program included walkthroughs of expense review and approval processes and controls at the five departments with the greatest travel and entertainment amounts in FY2012. Detailed testing of individuals' expenses was conducted for those SMG members and deans with combined travel and entertainment expenses exceeding \$5,000 for the fiscal year. As of our audit planning and testing phases, the Berkeley campus had thirteen members in SMG and nineteen deans. Per ECAS instructions, athletic department personnel were excluded from the scope.

Background

Based upon the sample criteria determined by ECAS, we selected 10 members from SMG and 14 from the dean's group for testing. The relevant policies related to review and approval of expenses for this group is summarized below:

Travel and Entertainment Expenses for SMG Members and Deans

According to BFB G-28 and BUS-79, a designated vice chancellor is responsible for reviewing and approving travel expenses incurred by the vice chancellors and deans. As of January 1, 2012, the EVCP serves in this role. Prior to this date, the Vice Chancellor – Administration and Finance served in this role.

In lieu of reviewing and approving each travel expense voucher and entertainment voucher, the designated vice chancellor may appoint a high-level individual on his or her staff who is

knowledgeable about the travel and entertainment policies to review and approve the expenses for policy compliance.

Based upon inquiry with the EVCP Office, an analyst in the EVCP Office is responsible for the initial review of SMG travel and entertainment expense documentation for completeness and compliance with University policies. After her review, she submits to the ECVP the expense documentation for the final review and approval of the reimbursement.

For deans, the Coordinator of Analytical Studies & Control Unit Administration is responsible for the review and approval of travel and entertainment expenses. Expenses requiring exceptional approval in accordance with policy are submitted to the EVCP.

Travel and Entertainment Expenses for the Chancellor

As an exception to the process above and as required by G-28, the campus Controller's Office is responsible for approving travel and entertainment expenses for the Chancellor as a member of SMG.

The Chancellor's Immediate Office prepares monthly a spreadsheet of the Chancellor's travel and entertainment expenses charged to his University AMEX credit card which includes details on, for example, the transaction date, vendor, expense amount, and business purpose. This spreadsheet and the supporting travel and entertainment expense documentation are submitted to the campus Controller's Office for review and approval by the campus Controller. Other expenses, such as the Chancellor's US Bank credit card and any direct vouchers payable to the Chancellor for reimbursement of out-of-pocket expenses, are also approved by the Controller. However, most travel and entertainment expenses are charged to the AMEX card and the other forms of payment are used less frequently.

Audit Methodology

We utilized the campus general ledger system as well as the travel and entertainment reporting system to compile FY2012 travel and entertainment expenses. Based upon this information, we selected five campus departments for process walkthroughs as well as 10 SMG members and 14 deans for detailed testing. Using ECAS sampling guidance, we selected approximately 10% of the dollar value of combined travel and entertainment expenses for these individuals including a minimum of one travel expense and one entertainment expense for each individual, if present. Since these individual expense items often were included as part of an expense report, we reviewed the entire expense report, where relevant, to assess compliance.

Summary Conclusion

Based upon our audit procedures, we did not have any reportable observations related to walkthroughs of processes and controls at the five departments in our sample. The processes and controls for monitoring, reviewing, and approving travel and entertainment were generally consistent with BFB G-28 and BUS-79.

With respect to our detailed review of individual expense items, we did not note any patterns of inappropriate expenses among either the SMG or dean's group samples. We did note instances where documentation of the business nature of the expense could be improved and we communicated our observations to the individual departments preparing the expense reports.

With respect to the Chancellor's travel and entertainment expenses, we noted that processes and controls related to the Chancellor's Immediate Office monthly preparation of documentation to support review and approval of the Chancellor's AMEX bill were not operating effectively for several months during the second half of our FY2012 audit period. We understand that while the process was working from July 2011 through February 2012, the departure of certain individuals from the Chancellor's Office in early 2012 may be the root cause for the process not subsequently operating effectively.

In addition, we noted that payment requests for the Chancellor's AMEX card after May 25, 2012 do not appear to be appropriately allocated to expense accounts and source funds according to the nature of the charge.

Lastly, we noted instances where travel and entertainment expenses for SMG members and deans were reviewed and approved through departmental procedures rather than through the EVCP Office. Based upon our inquiry, we noted that if the SMG member or dean were travelling or entertaining in their role as a departmental faculty member, rather than in their management capacity, departmental staff were processing such expenses through departmental processes rather than submitting it to the EVCP Office. We note that there is no current distinction between an SMG member or dean functioning as a department faculty member or as a member of management with respect to the approval process for their expenses.

Detailed discussion of these last three observations is presented in the following section.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Inconsistent Review and Approval of the Chancellor's Expenses

Observation

According to BFB G-28, *Travel Regulations*, and BFB BUS-79, *Expenditures for Business Meetings, Entertainment, and Other Occasions*, the campus Controller's Office is responsible for approving the Chancellor's travel and entertainment expenses. Based upon inquiry with the Chancellor's Immediate Office and corroborating inquiry with the Controller's Office, we understand that the Chancellor's expenses consist primarily of travel and entertainment charges on his American Express (AMEX) corporate card. The normal procedure for processing these expenses involves the Chancellor's Immediate Office preparing a spreadsheet detailing the individual charges and an explanation of the business purpose of these charges which the Controller's Office uses to assist in their review.¹

As part of our test procedures, we selected the FY2012 largest expense transaction for the Chancellor which consisted of payment of the balance due on his May 2012 AMEX card statement. We inquired but were not able to obtain evidence of review and approval of the statement and supporting spreadsheet by the Controller's Office. We expanded our scope to include all AMEX statements in FY2012 and noted an additional five statements that did not appear to have been reviewed and approved by the Controller's Office.²

We note that review by the Controller's Office of payment requests for the Chancellor's AMEX statements appear to have been appropriately reviewed in the last half of 2011 and the beginning part of 2012. However, the normal review and approval process appears to have been disrupted at about the same time as certain staffing changes at the Chancellor's Immediate Office which resulted in a different individual there preparing the payment request packets. This disruption in the normal process appears to have continued into FY2013.

For the May 2012 AMEX statement we sampled, we conducted an item-by-item review of individual charges on the statement and we did not note any expenses that appeared unusual or questionable. We requested and were provided a copy of the spreadsheet prepared by the Chancellor's Immediate Office detailing that month's travel and entertainment expenses and their business purpose. However, we note that the spreadsheet does not contain all of the charges on the AMEX statement, which was paid in full. Due to the aforementioned staffing changes in

¹ We note that support staff preparing these documents are functionally within the Vice Chancellor – Administration & Finance organization but are assigned to support certain administrative functions for the Office of the Chancellor.

² Based upon our findings related to the AMEX card, we also looked at FY2012 payments made toward the Chancellor's other corporate credit card at US Bank and direct vouchers payable to the Chancellor. We noted only three such transactions, all under \$1,000 and with evidence of review and approval by the Controller.

the Chancellor's Immediate Office, we were unable to speak to the individual who prepared the spreadsheet.

In addition, the Controller's Office maintained that they were not sent a spreadsheet for that particular monthly statement for review and approval. Given these collected observations, we conclude that the monthly process for review and approval of the Chancellor's expenses was not operating effectively for several months during our audit period.

Management Response and Action Plan

The Chancellor's Immediate Office and supporting staff from the Vice-Chancellor – Finance and Administration acknowledge the observation. The normal process of preparation and internal approval of the Chancellor's travel and entertainment expenses did not operate as designed for certain periods in 2012 due to unexpected staff turnover. We are working to retroactively address those months where the process may not have operated effectively to ensure that travel and entertainment expenses for those months are appropriately reviewed, approved, and recorded.

Going forward, the Controller's Office, the Chancellor's Immediate Office and supporting staff from the Vice-Chancellor – Finance and Administration are coordinating to reinstate or enhance the prior preparation and approval process. With the advent of certain support for the Chancellor's Immediate Office potentially moving to the Shared Services Center in the near future, we will also work to ensure that any future process involving Shared Services in the preparation and approval workflow will still involve individuals sufficiently knowledgeable of the Chancellor's expenses to conduct an appropriate level of review and approval for proper recording in the accounting system.

In addition, we will ensure that the Controller's Office once again receives sufficient and timely information to review and approve the Chancellor's travel and entertainment expenses on a monthly basis for compliance with applicable policies. We expect to have the finalized process in place by July 1, 2013.

Inconsistent Allocation of Chancellor's Expenses to Individual Accounts and Funds

Observation

During our examination of the Chancellor's May 25, 2012 AMEX statement, we observed handwritten chartstring numbers by individual charge items which we understand are for the purpose of allocating these expenses to different expense accounts and source funds. However, we noted that the entire statement amount was charged to one expense account and one source fund, contrary to the handwritten chartstrings on the statement.

Based upon this observation, we examined the allocation of expenses on other AMEX statements in FY2012. We noted that statements prior to the May 25th statement appear allocated to different expense categories and source funds. However, payments for statements beginning

with the May 25th statement and afterwards were charged to only one expense account and source fund per statement.

While we did not conduct a detailed review of other FY2012 AMEX statements, we observe that it is highly unlikely that all charges on statements beginning with May 25th and afterwards relate to only one expense account and source fund per statement.

Management Response and Action Plan

See response to previous observation

Expenses for SMG Members and Deans Not Approved by the Designated Vice Chancellor or High-level Individual

Observation

According to BFB G-28 and BUS-79, the designated vice chancellor is responsible for reviewing and approving travel expenses incurred by the vice chancellors and deans. In lieu of reviewing and approving each travel and entertainment expense voucher, the designated vice chancellor may also appoint a high-level individual who is knowledgeable about the travel and entertainment policies to review and approve the expenses for policy compliance.

Our examination of the travel and entertainment expenses for the sampled 10 SMG members and 14 deans found instances of 4 SMG members and 5 deans whose travel and/or entertainment expenses were not submitted to the designated vice chancellor or to the appointed high-level individual for review and approval. For one of the four SMG members' 2011 travel expenses, the expense should have been reviewed and approved by VC Wilton given the time frame of these expenses.

Based on a discussion of this observation with the campus department management and staff involved in processing their respective SMG member's and dean's travel and entertainment expenses, they were not aware of the requirement to submit these expenses for review and approval to the designated vice chancellor or high-level individual. They believed that if an SMG member or dean was travelling or entertaining in their capacity as a department faculty member, rather than in their management capacity, that departmental approval procedures would apply.

Our understanding is that there is no current distinction between an SMG member or dean functioning as a department faculty member or as a member of management with respect to the approval process for their expenses.

Management Response and Action Plan

The SMG coordinator thanks the Audit team for clarifying the proper approval procedure to follow for both deans and SMG members (those SMG members who are current faculty members) when they incur expenses in their faculty, rather than administrative, roles. This

question has surfaced periodically, and because policies do not directly address the question, it is most helpful to have guidance from Audit on this point.

The EVCP will issue a memo to all deans and SMG members to clarify that all of their travel and entertainment expenses should come to the EVCP for review and approval. Our projected timeline to disseminate this memo is April 1, 2013.