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May 9, 2013

**EXECUTIVE VICE PRESIDENT BROSTROM
CHIEF FINANCIAL OFFICER TAYLOR**

Subject: Final Audit Travel and Entertainment Expenditures Report – No. P13A006

Attached please find a copy of the final report for Audit Project P13A006: Travel and Entertainment Expenditures. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: Matthew.Hicks@ucop.edu).

A handwritten signature in black ink, appearing to read "M. Hicks".

Matthew Hicks
Audit Director

Attachment

cc: Senior Vice President Vacca
Associate Vice President Arrivas
Auditor Wong

UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

TRAVEL AND ENTERTAINMENT EXPENDITURES
Project No. P13A006
November 2012

Work Performed by:
Benjamin Wong, Auditor

Executive Summary

Introduction

As part of the annual systemwide fiscal year 2012-2013 audit plan, University of California Office of the President (UCOP) Internal Audit Services conducted a review of Office of the President's travel and entertainment (T&E) expenses' compliance with the following University policies:

- Business and Finance Bulletin (BFB) G-28, Policy and Regulations Governing Travel
- Business and Finance Bulletin BUS-79, Expenditures for Business Meetings, Entertainment, and Other Occasions.

For most UCOP departments, the travel reimbursement process is initiated with the Business Resource Center (BRC). Office of the General Counsel, Secretary of the Regents, Office of the Treasurer, UC Press, and the Office of Ethics, Compliance & Audit Services, do not use BRC to process their T&E reimbursements but have one or more trained department proxies to perform this process. All T&E expenses are processed through either University of California Los Angeles's (UCLA) Express system or BruinBuy.

Objectives and Scope

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

- The campuses and lab have 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 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.

The scope of the audit covered activity for fiscal year 2011-2012 (FY12) and included:

- 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.
- A review of systems, procedures and practices for at least five departments (number determined at local discretion) with the greatest travel and entertainment costs.
- Athletics personnel and athletics departments are excluded from this review.

We obtained travel and entertainment data from UCLA travel and accounts payable systems. Based on object codes designated as travel and entertainment, we determined UCOP disbursed approximately \$3.9 million and \$63 thousand on travel and entertainment respectively in FY12. As required by the audit coverage requirements above, we reviewed 44 travel expenditure reports (TRs) and 25 entertainment expenditures. Additionally, we reviewed T&E entertainment policies and procedures for the top five UCOP departments with the highest travel and/or entertainment expenditures in FY12.

Overall Conclusion

Based on audit work performed, we found UCOP FY12 SMG T&E reimbursements were generally in compliance with the University's T&E policies. Overall, the level of detail included in UCOP departmental T&E policies and procedures varied greatly; departments (e.g. Immediate Office of the President) incurring T&E expenses indirectly applied BUS-79 and G-28 as departmental policies and procedures, whereas departments incurring T&E expenses directly documented more detailed departmental T&E policies and procedures.

We discussed exceptions identified with the corresponding T&E processing departments and management has taken corrective actions accordingly, such as reinforcing staff on the University's T&E requirements. Also, we identified T&E reimbursements that may be considered as 'questionable' because specified requirements were not defined in G-28 and/or BUS-79. Identified exception and questionable T&E reimbursements are discussed in the following sections.

Opportunities for Improvement and Action Plans

1. Review of Travel Expenses for SMG Members Disclosed Opportunities for Improvement

In our review of travel expenses for SMG members, we identified some reimbursed expenses that were inconsistent with policy requirements or were higher than expected, indicating a need for additional training and improvement in review processes.

a. Foreign Travel Expenses Exceeding Per Diem Allowances

G-28 requires foreign travel to be reimbursed in accordance with the Federal Maximum Travel Per Diem Allowances for foreign areas published by the Department of State. If actual expenses are claimed due to special or unusual circumstances, the traveler must document such circumstances by submitting a written explanation with the travel expense voucher.

Of the 44 TRs reviewed, we identified one TR that exceeded the Federal Maximum Travel Per Diem Allowances for foreign areas published by the Department of State (\$319) by a total of \$571 over four nights without documenting any special or unusual circumstances.

b. Per Diem Not Properly Adjusted for Partial Day of Travel

G-28 requires the reimbursement of subsistence expenses be calculated in multiples of the applicable federal per diem rate based on the total number of hours between the time of arrival at the foreign or OCONUS (Outside the Contiguous United States) location and the time of departure for the return trip to the traveler's headquarters of residence.

Of the 44 TRs reviewed, we identified one TR for which the last day of travel per diem was not adjusted for a partial day, resulting in a \$56.75 over-reimbursement to the traveler.

c. Travel Expenses Not Properly Approved

G-28 requires that travel expense voucher approval must be documented by a signature authority form on file with the campus accounting office or by an electronic signature authorization. The travel expense voucher should not be approved by a person who reports directly or indirectly to the traveler.

Of the 44 TRs reviewed, we identified one \$2,078.59 TR that was approved by a person who reported indirectly to the traveler. The TR was otherwise in compliance with policy.

d. Reimbursement of Non-Business Expense

G-28 requires miscellaneous expenses are reimbursable when they are ordinary and necessary to accomplish the official business purpose of a trip.

Of the 44 TRs reviewed, we identified one TR incorrectly reimbursed the traveler's credit card account late fee of \$35.

e. Business Purpose not Adequately Documented

G-28 requires substantiation of expenses to include the purpose for the travel or the nature of the business benefit derived as a result of the travel.

Of the 44 TRs reviewed, we identified two TRs totaling \$777.55 for the same individual for travel within the Bay Area without documented substantiation of the purpose for the travel or the nature of the business benefit derived as a result of the travel. Per our discussion with BRC, this traveler's employment with UCOP allowed the individual to be reimbursed on travel expenses in the Bay Area. BRC has begun including additional details in the traveler's TRs to substantiate the expenses.

f. Lack of Advance Approval for Indirect or Interrupted Travel

G-28 requires advance approval when a traveler takes an indirect route or interrupts travel by a direct route, for other than University business.

Of the 44 TRs reviewed, we identified 4 TRs with indirect routes or interruptions to direct routes for reasons other than University business without advance approvals. The four air tickets included one international trip in the amount of \$4,412.25 and three domestic trips totaling \$1,761.00.

g. Higher than Expected Travel Expenses

Ground Transportation Expenses

G-28 requires that transportation expenses be reimbursed based on "the most economical mode of transportation." The most economical mode of transportation is not defined in G-28, so it is left to the reviewer of the expenses to apply judgment to assess compliance with this policy requirement.

Of the 44 TRs reviewed we identified the following ground transportation expenses that did not appear to reflect usage of the most economical mode of transportation:

- i. Four travelers used short-term parking instead of long-term parking resulting in an estimated total difference of approximately \$112.
- ii. One traveler incurred \$493 taxi fare in five days on an international trip.

While neither of the above observations indicate a direct violation of policy requirements, they appeared to be inconsistent with the "most economical mode of transportation" guidance in G-28.

Lodging Expenses

G-28 requires that the reimbursement of daily subsistence expenses be based on the actual amounts incurred for lodging and meals and incidental (M&IE) expenses and that the M&IE cap not be treated as a per diem. M&IE reimbursement is limited to the actual reasonable cost incurred. Actual reasonable cost is not defined in G-28.

Of the 44 TRs reviewed, one domestic TR expensed \$425 lodging per night for four nights instead of the actual invoiced cost of \$705.89 per night. However, the \$425 per-night amount submitted for reimbursement was a higher than expected rate for lodging. During fieldwork,

Internal Audit discussed the expenses with the traveler and the traveler agreed to repay the University an additional portion of the nightly rate.

Action Plan:

The following actions have already been taken prior to the issuance of this report:

1. The Business Resource Center has provided training to its staff to reinforce policy requirements associated with the observations noted above and has implemented specific measures to improve documentation of business justification of travel going forward.
2. The Office of the Chief Financial Officer has revised Business and Finance Bulletin G-28. This revision included some clarifying language relevant to many of the observations noted above, including:
 - Clarification of the definition of “business purpose” and requirement that a business justification for the trip be specified in the travel reimbursement request
 - Adoption of a special allocation rule for foreign travel expenses, as required by the IRS regulations
 - Lodging expenses incurred within the continental United States less than thirty days should be reasonable for the location of travel, and lodging that exceed 200% of the federal lodging per diem should be explained
 - Travelers should seek out longer term parking at airports for travel that exceeds twenty four hours
 - Recommendation that travelers be cost conscious when seeking transportation methods to or from the airport
 - Specifies that the traveler must be more than forty miles from the headquarters or home, whichever is closer, before overnight lodging will be reimbursed
 - Travel that involves indirect itineraries or is otherwise interrupted for personal reasons must have a cost comparison based upon what UC would have paid for the business portion of the trip
 - Reminder that any expenses considered personal are not reimbursable
3. Some of the travelers noted in the observations above have been individually counseled by Internal Audit and corrective action has been taken by the travelers as appropriate.

2. Review of Entertainment Expenses for SMG Members Disclosed Opportunities for Improvement

In our review of entertainment expenses for SMG members, we identified some reimbursed expenses that were inconsistent with policy requirements or were higher than expected, indicating a need for additional training and improvement in review processes.

a. Entertainment Expenses Not Properly Approved

BUS-79 prohibits individuals with delegated approval authority from approving his/her own entertainment expenses.

For 2 of the 25 entertainment expenses reviewed totaling \$705.93, two individuals with appropriate delegated approval authority approved their own entertainment expenses. The expenses were otherwise in compliance with policy.

b. Higher than Expected Entertainment Expenses

BUS-79 requires entertainment expenditures should be cost effective and in accordance with the best use of public funds. Best use of public funds is not defined in BUS-79.

Of the 25 entertainment expenditures reviewed, one entertainment expense included a gratuity of \$50 on top of an 18% gratuity of \$88.77.

Action Plan:

The Business Resource Center has provided training to its staff to reinforce policy requirements associated with the observations noted above. This action was taken prior to the issuance of this report.