

**RIVERSIDE: AUDIT & ADVISORY SERVICES**

May 1, 2013

To: Bobbi McCracken  
Associate Vice Chancellor, Financial Services

Subject: Systemwide Senior Management Group Members' and Deans' Travel &  
Entertainment Audit

Ref: R2013-14

We have completed our Systemwide Senior Management Group Members' and Deans' Travel & Entertainment audit in accordance with the UC Riverside Internal Audit Plan. Our report is attached for your review. We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2013-14 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by your staff. Should you have any questions concerning the report, please do not hesitate to contact us.

Michael R. Jenson  
Director

xc: Audit Committee  
Associate Vice Chancellor & CFAO, Administration Wildman  
Executive Officer Zahedi  
Associate University Librarian for Administrative Services Rios

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2013-14

SYSTEMWIDE SENIOR MANAGEMENT GROUP MEMBERS' AND DEANS'  
TRAVEL & ENTERTAINMENT AUDIT

MAY 2013

Approved by:

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Director

**UC RIVERSIDE**  
**SYSTEMWIDE SENIOR MANAGEMENT GROUP MEMBERS' AND DEANS'**  
**TRAVEL & ENTERTAINMENT AUDIT**  
**INTERNAL AUDIT REPORT R2013-14**  
**MAY 2013**

**I. MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the Systemwide audit of Senior Management Group (SMG) Members' and Deans' Travel & Entertainment, it is our opinion that, overall, internal controls over the travel and entertainment expenses incurred by SMG members and Deans are generally in compliance with applicable University policies and procedures. In addition, existing procedures and practices followed in monitoring, reviewing and approving travel and entertainment expenses for senior officials, other employees and selected departments reviewed generally 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 generally supported by records consistent with University policies and in a manner that demonstrated costs were incurred when conducting University business.

However, we observed some areas that need enhancement to strengthen internal controls and/or effect compliance with University policy:

- Inadequate Documentation and Explanations – Some travel and entertainment vouchers lacked evidence of approval in the system of records, sufficient documentation of business purpose/justification, sufficient backup documentation to validate expenditures, and explanation for higher than expected costs. (Observation III.B)
- Unallowed and Excessive Costs – We noted some Travel Expense Vouchers (TEVs) with unallowed and excessive reimbursed costs. (Observation III.C)
- Transient Occupancy Tax Waiver – Travelers in the selection of TEVs eligible for Transient Occupancy Tax Waivers did not obtain such waivers. (Observation III.D)

Minor items not of the magnitude to warrant inclusion in this report were discussed verbally with management.

## **II. INTRODUCTION**

### **A. PURPOSE**

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed an audit 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 Universitywide 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.

### **B. BACKGROUND**

As part of the Fiscal Year 2012-2013 audit plan, a Systemwide audit at the direction of the University Auditor's Office, UCR A&AS reviewed travel and entertainment expenditures of SMG members and Deans for compliance with policies Business and Finance Bulletin (BFB) G-28, "Policy and Regulations Governing Travel," and BFB BUS-79, "Expenditures for Business Meetings, Entertainment, and Other Occasions".

During the Fiscal Year 2011-2012, the UCR SMG members and Deans consisted of the following officers:

- Chancellor
- Executive Vice Chancellor & Provost
- Interim and Past Vice Chancellors for Finance & Business Operations
- Vice Chancellor for Health Affairs & Dean of School of Medicine
- Vice Chancellor for Research
- Vice Chancellor for Student Affairs
- Vice Chancellor for University Advancement
- Campus Counsel
- University Librarian
- Dean of Bourns College of Engineering
- Dean of College of Humanities and Social Sciences
- Interim and Past Deans of College of Natural and Agricultural Sciences
- Dean of Graduate Division

- Interim and Past Deans of Graduate School of Education
- Interim and Past Deans of School of Business Administration
- Dean of University Extension

During Fiscal Year 2011-2012, travel and entertainment expenditures for these 20 individuals totaled approximately \$203,000 for Travel (from the iTravel system) and \$44,000 for Entertainment (accounts 714140 – Conference, Meeting Food/Beverage (A21 Allowed) and 714160 – Social Activities (A21 Unallowed)).

On January 1, 2013, G-28 was revised. Since the report was issued after this revision, we have referenced the new policy changes, where applicable.

### C. 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 greater than or equal to \$5,000 criteria, and included several additional Travel Expense Vouchers (TEVs) tested as part of another audit, for audit testing. This amounted to 22 TEVs for \$50,577 (or 25% coverage) and 19 Entertainment Vouchers for \$10,579 (or 24% coverage).
- A review of systems, procedures and practices for five departments, without regard if they have SMG members or Deans, with the greatest travel and entertainment costs. They are as follows:

| Department   | Travel | Entertainment |
|--|--------|---------------|
| School of Business Administration                      | x      | x             |
| University Extension - International Education Program | x      | x             |
| Entomology   | x      |               |
| Botany & Plant Sciences                                | x      |               |
| Physics & Astronomy                                    | x      |               |
| University Advancement-Development                     |        | x             |
| Chancellor's Office-General Operations                 |        | x             |
| Engineering Dean's Office                              |        | x             |

Athletics personnel and Athletics departments are excluded from this review.

**D. INTERNAL CONTROLS AND COMPLIANCE**

As part of the review, internal controls were examined within the scope of the audit.

Internal controls is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations.

Substantive audit procedures were performed from August through November 2012. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

**III. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES****A. Approval of Travel Expense Voucher**

In one of 22 TEVs tested, the final approval was by a person who reported directly to the SMG member or Dean.

**COMMENTS**

The travel expenditures incurred in this isolated case were valid and reasonable, but the Travel Expense Voucher did not bear evidence of review and approval by a Vice Chancellor designated by the Chancellor as required by University policy and procedures.

UC Business and Finance Bulletin (BFB) G-28 in part states that “*The Travel Expense Voucher should not be approved by a person who reports directly or indirectly to the traveler.*”

The department took corrective action by modifying their accountability structure and retroactive/subsequent approval was obtained from the EVC/Provost.

**B. Inadequate Documentation and Explanations**

We noted travel and entertainment vouchers lacking:

- evidence of approval in the system of record,
- sufficient documentation of business purpose/justification,
- sufficient backup to validate expenditures,

- explanation for higher than expected hotel costs, and
- explanation for extra night hotel stay and rental car.

## COMMENTS

1. One of 19 Entertainment Vouchers tested did not have the required approval uploaded to the system of record (ePay). The approval was filed at the department (Library).
2. Two of 19 Entertainment Vouchers and several instances among the 22 TEVs tested had inadequate documentation of business purpose/justification and supporting records.

Entertainment Vouchers - In one of the cases, additional documentation of justification was retained at the department instead of loading to ePay due to its sensitive nature. We concur with such procedure. In the other case, the justification was subsequently obtained from the SMG member.

TEVs – G-28, Section V.I.2.a. says, “*Substantiation must include: The purpose for the travel or the nature of the business benefit derived as a result of the travel.*” We identified opportunities for improvement in the documentation supporting travel expenditures. Specifically, supporting documentation did not always provide sufficient explanation as to the business purpose of the travel. As such, there is an increased risk that travel costs could be incurred that are not in compliance with the University’s travel policies or that represent an inappropriate use of state funds. We subsequently obtained additional information to justify the business purpose of the TEVs that had inadequate documentation of business purpose/justification. In five cases, additional information was necessary to verify that no personal related travel expenses were charged to the University and/or expenses were ordinary and necessary for the purpose of the trip.

3. One of 22 TEVs tested was missing sufficient backup to validate airfare of \$1,181 (the amount was cut off on the supporting documentation) and the miscellaneous expense for a \$250 airfare change fee (not included as part of the TEV). The traveler was subsequently able to provide the appropriate backup documentation.
4. One of 22 TEVs tested did not include an explanation for higher than expected costs. The TEV included a charge for a hotel in Washington D.C. for \$452 a night. This exceeds the \$226 per night maximum amount on the General Services Administration (GSA) website, which is a standard used.

G-28, Section V.E.2.a.i. says, “*Lodging expenses ... must be reasonable for the locality of travel.*”

The department subsequently provided sufficient explanation that supported the reasonableness of the amount for the time and location, factoring in additional required transportation costs for a hotel in an alternative location.

5. For one TEV tested, we noted that the business need for an extra night stay and rental car was not explained. Such travel voucher was approved by University Advancement.

The traveler subsequently provided sufficient explanation that explained the extra night stay, rental car, and parking. At the time the travel was booked, there was to be two meetings with donors on Saturday and Sunday, preceding a conference starting on Monday. The location of one of the donors was sufficiently far from the conference that a rental car was initially deemed more advantageous to the University than other means of commercial transportation. However, the donor meeting on Saturday was cancelled on short notice and the other donor decided to drive into the city to meet the traveler, negating the need for the rental car. While this is a reasonable explanation for the extra night stay and rental car, it was not properly questioned, documented, and approved.

Subsequent additional information provided by the department and traveler (including a conference agenda and information about an associated entertainment voucher) enabled us to verify that there was no personal portion to the trip.

However, we were unable to determine if the discounted rates negotiated with car rental agencies by the University were requested or if the University’s identification number on Connexus was used to ensure the vehicle is covered by physical damage insurance as per G-28, Section D.3.b.i.

#### RECOMMENDATION - LIBRARY

We recommend that all necessary approvals be uploaded to ePay as the system of record.

#### RECOMMENDATION - CEVC/P

Sufficient documentation of business purpose/justification (sometimes more detailed explanations of the business purpose of the travel or documents such as business itineraries to support the reasonableness of

travel costs incurred) should be included in the entertainment and travel vouchers so it can be reviewed as part of the review and approval process. Offline records can be maintained and referenced for information that is sensitive in nature, but it should be referenced in the TEV or entertainment voucher. The review and approval process should include verification of amounts charged where receipts are required (including miscellaneous charges greater than \$75). Such process should also include verification of explanations for higher than expected costs. Relevant portions of G-28 and BUS-79 should be re-communicated to SMG members, Deans, and their departments.

#### RECOMMENDATION – UNIVERSITY ADVANCEMENT

Departments should question unexplained costs and sufficient explanation should be included in the travel vouchers so it can be reviewed as part of the review and approval process.

#### MANAGEMENT RESPONSE - LIBRARY

It is the opinion of the Libraries' interim CFAO that the ePay system needs to be more robustly developed to cover these types of situations, which admittedly are rare. The last part of the approval text before the approver clicks the accept button states that the approver does not directly nor indirectly report to the person being reimbursed. In any request for payment from the University Librarian, there is no option except for the interim CFAO, who reports to the University Librarian, to accept the ePay transaction if the University Librarian is ever to receive payment. The interim CFAO discussed this particular reimbursement with the Director, Accounts Payable/Travel. Retrospectively, the ePay transaction was sent on the EVC's office and the EVC did approve it. However, the record had already moved beyond the Libraries and we were no longer able to upload a copy of it. At the request of the Director, Accounts Payable/Travel, on 6/14/2012 a copy of the email string about the approval issue as well as a .pdf copy of the EVC's approval were sent to Accounting.

Moving forward to January 2013, ePay has been progressed in development so that when the University Librarian has a request for personal reimbursement, the Libraries' interim CFAO is only the departmental approver with the EVC as the organizational approver (which is how ePay should work). However, in January 2013, if the University Librarian is the event host, ePay is not set up to again treat the Libraries' interim CFAO as only the departmental approver and the EVCs Office as the Organizational approver. However, ePay may not be designed to accept scans once the request is in Accounting. EPay is also not clear as to when an approver with dual roles is functioning as a departmental approver and when as an organizational approver. In contrast to ePay, in the campus Capital Programs Management System

one has to login in to the specific role—either the department approver or as the organizational approver.

#### MANAGEMENT RESPONSE - CEVC/P

The Executive Vice Chancellor and Provost (EVC/P) periodically communicates clarifications and reminders concerning travel and entertainment policies and processes to direct reports and their departments, and will continue this practice as necessary.

Regarding documentation of business purpose on TEVs and entertainment vouchers, it is our position that department heads and managers should have a certain amount of discretion when determining whether or not approving travel for one of their employees is consistent with a bona fide business purpose, since they are most familiar with the mission, goals, and objectives of their units. If a high-level approver such as a Dean, Vice Chancellor, or the EVC/P approves the travel (and associated expenditure of resources) of a direct report, it shouldn't be second-guessed by others not familiar with the specific situation.

As to the sufficiency of documentation accompanying reimbursement requests, due diligence is performed by the EVC/P and his staff to ensure his understanding and concurrence with the information on the voucher and its compliance with policy. The approval of a TEV or entertainment voucher by the EVC/P attests to the appropriateness and adequacy of the documentation accompanying the voucher. Since the original documentation is maintained by each department as the “department of record,” it is available to answer questions at any time in the approval process and for audit purposes. Hence, although it is the intent that adequate and appropriate documentation is included with each electronic submission of a voucher, there must be some flexibility in the bureaucratic procedure of processing a voucher to allow for some judgment concerning what is considered “adequate and appropriate.” We believe that the EVC/P and his staff are fundamentally and adequately in compliance with supporting documentation requirements.

#### MANAGEMENT RESPONSE – UNIVERSITY ADVANCEMENT

After learning of the inadequate documentation regarding the UA-approved travel expenses for one of the deans, VCUA:

- Has not offered to pay for any other dean's travel;
- Will structure any “guest” payments differently – have the expenses booked, processed through the department and then reimburse the unit afterwards;
- Has initiated improved and on-going training with the administrative staff who handle submissions of the travel vouchers;

- Has strongly reminded all reviewers and approvers of their responsibility to carefully question and understand all reported expenses.

**C. Unallowed and Excessive Costs**

We noted TEVs with unallowed and excessive reimbursed costs related to air upgrades to Business Select and airport parking.

**COMMENTS**

1. One traveler had an upgrade to Southwest Business Select (BS) in one of 22 TEVs tested. Upon further review, a total of nine TEVs were identified with flights on Southwest Airlines for this traveler for Fiscal Year 2011-2012. Total Business Select costs amounted to \$272.

G-28 (the version in effect during the period of the audit), Section V.D.2. says, “*Use of business or first-class or other higher-cost services may be authorized under the circumstances listed (in the policy).*”

The use of Business Select, a higher cost service, did not appear to meet any of the criteria outlined in the policy. However, the approving unit did not interpret Business Select or Priority Boarding to be a “higher-cost service” in the category of First-Class or Business-Class. A revision of G-28, issued and dated January 1, 2013, has clarified ‘other higher-cost services’ to include priority boarding or early check-in, which we believe to include Business Select.

2. One traveler parked in the short term parking lot at the Ontario airport for a multi-day trip on one of 22 TEVs tested. Upon further review, we found 5 of 5 parking reimbursements for Fiscal Year 2011-2012 at Ontario airport for this individual were for the short term parking lot (\$18 per day; twice the cost of parking at the long term lot). Total additional costs amounted to \$126.

G-28, Section V.D. says, “*Transportation Expenses - Transportation expenses shall be reimbursed based on the most economical mode of transportation and the most commonly traveled route consistent with the authorized purpose of the trip.*”

G-28, Section V.D.3.d. says, “*Reasonable charges for parking while an employee is on travel status or on University business away from regular duties also will be allowed.*”

3. Traveler paid for and was reimbursed for meal expenses of \$22 on behalf of another SMG member traveler.

G-28, page 10 says, “4. *Payment of Expenses on Behalf of Others – University travelers normally shall not be reimbursed for expenses paid on behalf of other persons, except in case of co-travelers who are sharing a room. Exceptions to this rule, such as supervised group trips, must be approved in advance. (See Section V.E.4., Payment of Group Subsistence Expenses, for more information).*”

#### RECOMMENDATION – CEVC/P

We recommend that all travel vouchers be reviewed for compliance with G-28 and any excessive and unnecessary costs not be reimbursed or explanation and exceptional approval, if needed, be obtained for their reimbursement. CEVC/P should re-communicate relevant portions of G-28 and BUS-79 to SMG members, Deans, and their departments.

#### MANAGEMENT RESPONSE – CEVC/P

All travel vouchers currently are reviewed and have been reviewed in the past to determine compliance with Business & Finance Bulletin G-28. As noted in the response to the audit comment for item III.B, it is our position that department heads and managers should have a certain amount of discretion when determining whether or not approving travel for one of their employees is consistent with a bona fide business purpose, since they are most familiar with the mission, goals, and objectives of their units. If a high-level approver such as a Dean, Vice Chancellor, or the EVC/P approves the travel (and associated expenditure of resources) of a direct report, it shouldn't be second-guessed by others not familiar with the specific situation.

In the case of the parking comment, the EVC/P's staff will ensure that the reason is documented for a direct report using “short-term” parking for a multi-day trip. However, this is an example of judgment/discretion being employed to weigh the costs and benefits of permitting the use of the higher-cost parking option, with the approver finding that the benefit exceeds the cost of the “short-term” option.

Regarding the use of Southwest Business Select or Priority Boarding, based on the language in B&FB G-28 at the time of the ticket purchases, we disagree with the auditor's interpretation of these options as “higher-cost services” in the category of First-Class or Business-Class. These are low-cost options (\$10 to \$30) similar to checking an additional piece of luggage or paying for a pillow and blanket on a flight. These low cost options can provide a benefit to travelers, especially frequent travelers, who travel on behalf of the University; they can ensure flight check-in so that flights are not missed, avoid additional time-consuming lines and be assured of having room for their carry-on bags. We believe that the Chancellor, and organization heads to whom the Chancellor has delegated exceptional approval authority, should have discretion concerning an

employee's use of this option. Due to the interpretation of the policy language at the time, advance written approval was not obtained.

UCOP recently revised Business and Finance Bulletin G-28 to clarify the definition of "other higher-cost services." Recognizing this revision, the campus will require for these "services" advance written exceptional approval that must be authorized by the Chancellor or an organization head to whom the authority has been delegated."

#### **D. Transient Occupancy Tax Waiver**

All eight TEVs selected for testing and eligible for Transient Occupancy Tax Waivers did not reflect such waivers. Total additional costs amounted to \$349.

#### **COMMENTS**

*G-28, Section V.E.5. says, "In a limited number of California cities and counties, University employees traveling on official business are granted an exemption from the payment of occupancy taxes imposed by these cities or counties on the transient rental of rooms. Travelers should identify themselves as University employees and claim exemption from the tax when checking in."*

*Accounting Manual chapter T-185-75, Taxes: Transient Occupancy Taxes Section VI. Responsibilities says, "It is the responsibility of the accounting officer to ensure that information concerning the transient occupancy tax exemption for University business travelers is distributed to the appropriate departments. It is the responsibility of the University traveler to claim exemption from transient occupancy taxes in the cities that provide such an exemption, as indicated in this chapter."*

In interviews with the top five travel departments and departments where the eight tax waivers were not obtained, most of those departments were generally unaware of the G-28 policy on Transient Occupancy Tax. Departments aware of the policy indicate the waiver is difficult to obtain. Departments generally do not believe UCR is complying with the policy.

The policy was re-communicated in the iTravel/ePay User Group meeting on November 6, 2012 after such non-compliance and lack of understanding of the policy were determined.

#### **RECOMMENDATION – CEVC/P**

CEVC/P should re-communicate and review for compliance the applicable Transient Occupancy Tax portions of G-28 to SMG members, Deans, and their departments.

## MANAGEMENT RESPONSE – CEVC/P

We disagree that there is a requirement for travelers to apply for exemption from the Transient Occupancy Tax. The policy states that “Travelers **should** identify themselves as University employees and claim exemption from the tax when checking in” (emphasis added). The key word is “should;” it does not say that this “must” be done.

Further, there is weak justification for University travelers being permitted to claim exemption. Accounting Manual chapter T-182-75, Taxes: Transient Occupancy Taxes, Section II (Background) states:

*Attorney General's Opinion 65-99 held that Federal, State, and local officers and employees traveling on official business are neither immune nor exempt from local transient occupancy taxes when the employing agency reimburses them for their hotel expenses. In 1992, the Attorney General's Office issued an updated opinion which restated the conclusion set forth in the 1965 opinion. Both opinions are based on the premise that it is the employee traveling on business who "contracts" for the hotel room, not the employing agency. Although the agency reimburses the employee's expenses, it is the employee who personally assumes responsibility for payment of the room charges. Moreover, the method of payment used by the traveler, whether by cash, personal check, personal credit card, State-issued check, or corporate credit card, is not relevant and does not alter the conclusion reached in the Attorney General's opinions.*

Finally, a requirement that travelers stand in line and complete a form for exemption (when many hotels do not have these forms, and there are no standardized forms that can be completed in advance), is unduly burdensome for these travelers, especially in this age of on-line check-in and check-out at many lodging facilities.

If the Accounting Office wishes to notify the campus about the Transient Occupancy Tax waiver issue and encourage travelers to complete the waiver form, there will be no objection from our office. However, this office will not require UCR travelers to submit these waivers.

**E. Hotel Cancellation Charge**

A Hotel Cancellation charge of \$1,137 was noted in one of 22 TEVs tested.

The traveler prepaid a hotel room for a trip because it was hotel policy and there were no other rooms available in that area when reserving the rooms. However, the traveler was subsequently informed that as a board member for a specific non-profit organization, he was expected to stay at a specific hotel different from the hotel that had been reserved. The reservations for

the first hotel were 'non refundable' although the hotel did give a partial goodwill credit.

G-28 says, “*Charges or lost refunds resulting from failure to cancel reservations shall not be reimbursed unless the traveler can show that such failure was the result of circumstances beyond the traveler's control.*”

This was reviewed by Accounting Services and determined to be circumstances beyond the traveler’s control. The determination appears reasonable.

#### **F. Training**

Interviews with top five travel departments indicate that training of travelers and employees incurring entertainment expenditures is accomplished mostly via email communications, meetings, and informal discussions reminding travelers of the policy, interpretations, and guidelines. One-on-one training is provided as needed. There is no policy requiring formal training. The departments determine the best method to educate the traveler/employee.