UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT SERVICES

EXECUTIVE TRAVEL AND ENTERTAINMENT
Project #12-025

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Executive Travel and Entertainment
Audit Services Project #12-025

MANAGEMENT SUMMARY

As a planned review for fiscal year 2011-2012, Audit Services completed a limited scope review of travel and entertainment reimbursements for UCSF senior executives included in the Annual Reporting of Executive Compensation (AREC) to the University of California, Office of the President. There were 25 Campus and 28 Medical Center executives whose annual salary was greater than $218,000 in calendar year 2011 and thus, whose compensation was reported as part of AREC.

The purpose of this review was to assess whether travel and entertainment expenses reimbursed to executives who were part of AREC were in accordance with applicable University and campus policies. In conducting this review, we examined supporting records for 42 travel and 21 entertainment expense reimbursements processed between January and September 2011.

Based on the procedures performed, we found that the travel and entertainment expenses reimbursed to executives were generally in compliance with University and campus policies. Overall, expense reports and other records were found to be properly approved, including exceptional expenses. Expenses claimed were substantiated and incurred for bona fide University business purposes. No reimbursements for alcohol expenses and meal expenses in excess of the allowable rates established were charged to State Funds.

While no significant control deficiencies were observed, we have noted opportunities for enhancements to the travel and expense reimbursement process. Internal controls over Campus travel and entertainment expense reimbursements have been improved by the implementation of the MyExpense system. It was noted that the Medical Center has not implemented MyExpense and continues to use a paper based system. The Medical Center should consider a plan to transition to MyExpense and also fully utilize Connexxus when arranging travel. The MyExpense application could be optimized to help identify unusual travel and entertainment reimbursement activities. In addition, we did identify a few reimbursements that did not fully comply with policies by claiming unallowable expenses or not providing sufficient supporting documentation to validate the purpose and/or the length of the events/meetings/conferences and the related expenses charged. Finally, policy and procedures governing travel and entertainment reimbursements should be revised to align with the implementation of MyExpense.

More detailed information can be found in the body of this report.

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I. BACKGROUND

As a planned review for fiscal year 2011-2012, Audit Services completed a limited scope review of travel and entertainment reimbursements for UCSF senior executives included in the Annual Reporting of Executive Compensation (AREC) to the University of California, Office of the President. There were 25 Campus and 28 Medical Center executives whose annual salary was greater than $218,000 in calendar year 2011 and thus, whose compensation was reported as part of AREC.

Prior to February 2011, both Campus and Medical Center organizations used paper Travel Expense Vouchers (TEVs) and Check Requests for Entertainment and Meeting Expenses (CREMEs) for expense reimbursements. By April 2011, the Campus Controller's Office had fully implemented MyExpense, a third-party hosted web-based expense reporting system, to replace paper vouchers and requests submitted for employee expense reimbursements. The system allows the submission of expense reports on-line, attachment of receipts, and electronically routing for approval.[1] On average, the Campus Controller's Office processed approximately 4,000 expense reports per month for the last six months. For a ten-month period from February to November 2011, MyExpense processed requests that resulted in approximately $13,795,400 in reimbursements. The Medical Center did not implement MyExpense and uses paper vouchers and requests for expense reimbursements that average approximately 500 per month.

Polices governing employee travel and entertainment include:

- UC Business and Finance Bulletin BUS-79 *Expenditures for Business Meetings, Entertainment, and Other Occasions*
- UC Business and Finance Bulletin G-28 *Policy and Regulations Governing Travel*
- UCSF Campus Administrative Policy 300-25 *Entertainment and Meeting Expense*
- UCSF Campus Administrative Policy 300-37 *General University Travel*
- UCSF Campus Administrative Policy 300-38 *Travel Reimbursement and Per Diem Rates*

II. PURPOSE AND SCOPE

The purpose of this review was to assess whether travel and entertainment expenses reimbursed to executives, who were part of AREC, were in accordance with applicable University and campus policies.

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[1] MyExpense does not include employee relocation expenses, reimbursement for Uniform Allowance, Tuition Reimbursement, cash advance for guests, and CREMEs payable to vendors.

Our examination encompassed paper TEVs, CREMEs and electronic expense reports processed via MyExpense for the Campus and Medical Center executives. We performed the following procedures:

- Reviewed University-wide bulletins and local policies and procedures to gain an understanding of the requirements governing travel and entertainment expenses;
- Reviewed internal procedures and guidelines for submission and approval in MyExpense to gain an understanding of the built-in logic and limitations of the system;
- Met with accounting personnel from the Campus Controller's Office and Medical Center Accounts Payable Office to obtain an understanding of the expense reimbursement process using MyExpense and paper processes;
- Obtained Executive Travel and Entertainment Approval Matrix for the Campus organization and Signature Authority Table for the Medical Center organization as well as delegation of authority to determine whether reimbursements were properly authorized;
- Identified University ledger accounts that are used to record travel and entertainment expenses to evaluate transactions volume for sampling purpose;
- Selected and performed substantive testing on a non-statistical sample of 42 travel (25 for Campus and 17 for Medical Center) and 21 entertainment (15 Campus and six Medical Center) expense reimbursements paid to executives, who had their compensation included on AREC;
- Examined records supporting travel and entertainment reimbursements including TEVs, CREMEs and electronic expense reports to determine compliance with policy requirements;
- Review system-generated reports from MyExpense for first or business class travel, meal exceeded per person limit, alcohol charges, and miscellaneous expenses to identify unusual activities.

The scope of the review was limited to the specific procedures described above and related to transactions and activities occurring between January and September 2011. As such, work completed is not intended, nor can it be relied upon to identify all instances of potential irregularities, errors and control weaknesses that may occur in areas not covered in this review. Fieldwork was conducted in October and November 2011.

III. <u>CONCLUSION</u>

Based on the procedures performed, we found that the travel and entertainment expenses reimbursed to executives were generally in compliance with University and campus policies. Overall, expense reports and other records were found to be properly approved, including exceptional expenses. Expenses claimed were substantiated and incurred for bona fide University

business purposes. No reimbursements for alcohol expenses and meal expenses in excess of the allowable rates established were charged to State Funds.

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IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Conversion to MyExpense and Connexxus

MyExpense which automates employee expense reimbursements was implemented in April 2011. The benefits of the web-based expense reporting system include:

- Increased travel and entertainment policy compliance with the system's built-in logic in identifying missing information, such as approvals and receipts and activities requiring exceptional approvals as in meal costs exceeded per person limit;
- Reduced reimbursement cycle time with automatically populated transaction data into expense reports and electronic approval routing function.
- Decreased transaction and processing costs through automation.

The Medical Center did not participate in the implementation with the Campus organization when it was first introduced and has continued with the existing paper-based system.

In addition, the Medical Center is not using a system-wide travel program, Connexxus, for booking travel. Of the 15 Medical Center TEVs reviewed that had airfare and/or lodging, none of the travel had been arranged via Connexxus. UC Business and Finance Bulletin G-28 (Bulletin G-28), *Policy and Regulations Governing Travel*, indicates that all Campus departments

are strongly encouraged to use Connexxus to realize the potential savings achievable under the program.

The implementation of MyExpense and use of Connexxus offers many control improvements and potential dollar savings opportunities for the Medical Center.

Management Corrective Actions

a. By March 30, 2012, the Medical Center will establish a plan to convert to MyExpense for employee travel and entertainment expense reimbursements.

b. By March 30, 2012, the Medical Center will communicate to operations/departments the availability and recommendation to use Connexxus for making University business-related travel arrangements.

B. Unallowable Expenses

An unauthorized TEV resulted in a Medical Center executive getting reimbursed for the airfare of the executive's guest/spouse.

A Medical Center executive submitted a TEV for $2,862 that included $178 in airfare for the executive's guest/spouse traveling with the executive to a professional conference was incorrectly reimbursed. In addition, the TEV was not approved.

Bulletin G-28 does allow the reimbursement of expenses of a spouse when documentation exists to demonstrate that his or her presence serves a bona fide business purpose. However, in this case, documentation did not exist and the event attended by the guest/spouse did not appear to be one such as fund raising or ceremonial activities that would require the attendance of a spouse.

The lack of review and approval of the TEV appeared to be an isolated error. Nevertheless, an error such as this would be prevented if the Medical Center implements the MyExpense system.

Management Corrective Action

The Medical Center Accounts Payable Office has received a refund of $178 airfare reimbursement from the executive. No further management corrective action is required.

C. Insufficient Supporting Documentation

Sufficient supporting documentation, including original itemized receipts, explanation for unusual items, agenda showing purpose, location and dates of the event/meeting/conference, must be submitted for travel and entertainment reimbursement to validate the expenses.

Our review identified the following discrepancies:

1. **Supporting documentation did not include the event/travel agenda substantiating the purpose of the trips and duration of the events. (Campus and Medical Center)**

   24 of the 42 (57%) reimbursements reviewed did not include support/the event agenda to show the date(s) of the events although the purpose of the trip was stated on the TEVs or provided in the electronic submission. The 24 included 15 from Campus organization and nine from the Medical Center organization.

   An agenda with the event/conference date(s) such as confirmation receipt to a conference or email communications substantiates whether the travel was for bona fide business purpose.

2. **The Declaration of Missing Receipt form was not completed for entertainment reimbursements with no original itemized receipts. (Campus and Medical Center)**

   In accordance with UCSF reimbursement guidelines, when original receipts are required but cannot be obtained or have been lost and all measures to obtain a duplicate receipt have been exhausted, the traveler (payee) should complete the Declaration of Missing Receipts Form and include with their reimbursement form.

   Three of 21 (14%) entertainment expense reimbursements with no original itemized receipts did not have a completed Declaration of Missing Receipt form submitted with the reimbursement requests. The three reimbursements included two ($466.45 and $277.10) from the Campus organization and one ($94.13) from the Medical Center organization. The two Campus reimbursements were submitted separately through a paper TEV and an electronic expense report.

3. **A senior executive was reimbursed for travel expenses without any of the required travel receipts. (Medical Center)**

   In accordance with UC Bulletin G-28, no business-related travel should be booked through internet vendors unless the traveler has confirmed

that each aspect of the package will be separately itemized to assure appropriate documentation for reimbursement.

A travel package valued at $1,141.51 was purchased from an internet vendor for airfare and lodging by a Medical Center executive. The package confirmation did not separately itemize hotel charges and airfare.

4. **Two TEVs did not provide clear explanation for expenses that were incurred before and after separate conferences attended by two senior executives. (Medical Center and Campus)**

In accordance with Bulletin G-28, additional expenses associated with travel extended to save costs may be reimbursed when the cost of airfare would be less than the cost of airfare had the traveler not extended the trip. Pre- and post-conference expenses must have adequate explanation/justification and pre-approval for reimbursement.

One of 25 (4%) Campus TEVs reviewed did not adequately explain an extended overnight lodging expense which was incurred for the last day of a conference held in Los Angeles, CA that ended at 1pm.

One of 17 (6%) Medical Center TEVs reviewed did not provide explanation for incurring lodging expenses and subsistence for an extra night of lodging two days before the start of a conference held in Chicago, IL.

Although the departments clarified the reasons for the pre- and post-conference charges at the time of the review, explanations or evidence of pre-approvals for the extended stay should have been submitted together with the TEVs to avoid confusion.

Management Corrective Actions

a. By January 31, 2012, the Campus Controller's Office and Medical Center Accounts Payable Office will provide policy reminders to departments via email communications, newsletters, or managers' updates that will include policy requirements for travel/the event agenda, Declaration of Missing Receipt form, and internet travel packages.

b. By January 31, 2012, as part of the supporting documentation for a TEV, the Medical Center Accounts Payable Office will update the Travel Expense Voucher (TEV) Review Checklist and Checklist for AP Payments or Reimbursement to require (i) a Declaration of Missing Receipt form signed by the requestor when

itemized receipt is not provided; (ii) an event agenda documenting the nature and date(s) of the event/conference.

c. By February 29, 2012, the Campus Controller's Office will contact Concur (vendor supporting MyExpense) to explore and determine whether possible system solutions could be implemented to require travelers to submit (i) a Declaration of Missing Receipt form signed by the requestor when itemized receipt is not provided; (ii) an event agenda supporting the nature and date(s) of the event/conference.

D. Campus Policies Revision

UCSF administrative policies governing travel, entertainment and meeting expenses have not been revised to reflect the change due to the implementation of the MyExpense system.

Policies and procedures provide guidelines and principles for personnel in the administration of travel and entertainment expense reimbursements to ensure accuracy in application of practices and compliance with university requirements.

We found three Campus Administrative Policies governing travel, entertainment and meeting expenses: 300-25 Entertainment and Meeting Expense, 300-37 General University Travel, and 300-38 Travel Reimbursement and Per Diem Rates. All contained references to TEVs and CREMEs with no reference to MyExpense.

Having up-to-date policies to show the change from paper vouchers and requests to MyExpense and its reimbursement process will provide clarity and to reduce the risk that necessary steps for handling specific tasks are missed or carried out incorrectly.

<u>Management Corrective Action</u>

By March 30, 2012, the Campus Controller's Office will complete and submit a draft revision to the three policies governing travel and entertainment expense reimbursements. The revised policies and procedures will reflect the conversion from paper TEVs and CREMEs to electronic reporting via MyExpense.