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## Internal Audit Report

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# Corporate Travel & Entertainment (CTE) Card Review

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**Performed By**

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**Approved**

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## I. EXECUTIVE SUMMARY

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Audit and Management Advisory Services (AMAS) has completed an audit to review the UC Santa Cruz Corporate Travel and Entertainment Card program as part of the FY2021 internal audit plan.

Based on our work, we concluded that corporate travel and entertainment cards are overall used for business-related travel and entertainment in compliance with UC policy and campus guidance, and expenses are approved by the appropriate personnel.

However, there are opportunities to strengthen support documentation and cardholder filing timeliness, and ensure the processes for verifying Travel & Entertainment Reconciliation Form (TERF) approvals are efficient.

We also found an opportunity to promote efficiency through consolidating existing detailed documentation of internal procedures. With the implementation of a new travel system, this may be an opportune time to document and ensure appropriate procedures are transitioned to the new system.

The following observations requiring management corrective action are identified below:

**A. Lack of Consolidated Internal Written Procedures**

Current documented procedures are very thorough and detailed, but they are not consolidated in a single document that can be easily referenced by new staff.

**B. Strengthen Support Documentation**

Overall, transactions charged to the CTE Card are in compliance with relevant UC policies and campus guidance. However, there are opportunities to strengthen support documentation, improve timeliness, and ensure the processes for verifying TERF Tier 2 approvals are efficient.

Agreement was reached with management on the recommended actions to address the risks identified in this area. The observations and the related management corrective actions are described in greater detail in section III.

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## II. INTRODUCTION

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### Purpose

The purpose of this review was to evaluate controls over the Corporate Travel and Entertainment Card (CTE Card) to ensure efficient and effective use and compliance with applicable UC requirements.

### Background

In 2018 UC Santa Cruz launched the use of the CTE Card, which is a US Bank Visa card provided to University travelers as a tool for charging University related business travel and entertainment expenses. Cash advances through the card are not permissible. During the audit, we were informed by the director of Accounting Services that this card was given an exception for athletics relevant expenses not limited to travel or entertainment.

The CTE Card program is locally managed by the CTE Office in Financial Affairs. CTE Office responsibilities include, but are not limited to, providing training to CTE cardholders, working closely and providing assistance to campus travelers, and auditing card usage to verify that cards are used appropriately.

Starting November 2019, the CTE Office shifted processes to obtain a promotional rebate if the balance is paid daily. Due to this shift in processes, the timely follow-up of delinquent cardholders is more critical and, at times, have required temporary additional resources to ensure the campus is in compliance with appropriate UC policies. Since then processes have been refined to ensure the number of delinquent cardholders remains low.

At the start of this audit, the CTE Office was comprised of three staff, one of which is a supervisor, with responsibilities outside of the CTE Card program. Since this audit was conducted during the COVID-19 pandemic, non-essential travel was temporarily suspended. When travel restrictions began to be lifted, one staff was temporarily reassigned to another role in Accounting Services, leaving one staff and one supervisor to cover all CTE Office responsibilities in addition to their other roles.

One of the main responsibilities of the CTE Office is to process the CTE Travel & Entertainment Reconciliation Form (TERF), which includes several complex tasks in support of this process. For example, there are regular audits of suspicious expenses, and transfers of expense are processed for relevant charges upon request by the cardholder. Cardholders are responsible to file within 30 days after the conclusion of travel or the US Bank statement date, which is issued monthly. The card is suspended if the TERF is not turned in satisfactorily within 60 days of the original statement. If any entertainment related expenses are incurred, an Entertainment Reporting Addendum with proper authorization signatures and notation is also required to be submitted. Outstanding CTE reconciliations 60 days past due will result in suspension of the cardholder's account. This is being closely tracked through staff-developed processes.

UC Policy BFB G-28 Travel Regulations and UC Policy BUS-79 Expenditures for Business Meetings, Entertainment, and Other Occasions are both relevant University of California policies that comply with Internal Revenue Service regulations regarding the provision or reimbursement of business meals, entertainment, and travel.

## **CruzFly**

UCSC partnered with Chrome River, a third-party vendor, to deliver the CruzFly system for UCSC employees, which allows users to capture receipts and submit reports in a paperless manner. Starting April 2021, CruzFly began to be rolled out as a test mode to a small, selected group of users to monitor transaction flows. Once this system is implemented to the rest of campus, it will serve as the campus Expense Reporting System, which is designed to automate and streamline the employee travel expense reimbursement process along with the monthly CTE Card reconciliation process.

Key features include:

- Receipts can be emailed, uploaded or sent from a smartphone.
- Out-of-pocket travel costs and/or CTE Credit Card expenses are submitted through the CruzFly system and automatically routed to the appropriate approvers and then to Accounts Payable.
- Employees can track where their expense reports are in the process at any time.

Since our audit was conducted prior to the implementation of CruzFly, this system and relevant processes were not included in our review.

## **Scope**

Our scope was limited to corporate travel and entertainment card transactions from January 1, 2018 – November 1, 2020, with a focus on compliance with relevant UC policies and campus guidance. We conducted this audit by means of the following:

- Reviewed UC and UC Santa Cruz policies, best practices, and other relevant guidance.
- Reviewed audit or advisory reports conducted at UC campuses related to corporate travel and entertainment card transactions.
- Interviewed personnel from the CTE Office to gain an understanding of campus processes and procedures for corporate travel and entertainment card transactions, and to document any concerns.
- Performed and documented a risk assessment based on the results of our preliminary work, such as interviews, review of documentation, and other observations.
- Limited testing to determine whether transactions charged are in overall compliance with relevant UC policies and campus guidance.

For additional details, please see Appendix A. Summary of Work Performed and Results.

### III. OBSERVATIONS FOR MANAGEMENT CORRECTIVE ACTION

<b>A. Lack of Consolidated Internal Written Procedures</b>	
Current documented procedures are very thorough and detailed, but they are not consolidated or formalized in a single document that can be easily referenced by new staff.	
<b>Risk Statement/Effect</b>	
The establishment of centralized, formal procedures promotes efficiency, clarity, and ensures processes are not lost, especially upon the onboarding, separation, or reorganization of key staff. With the implementation of a new travel system, this may be a favorable time to review current procedures with feedback from stakeholders.	
<b>Agreement</b>	
<b>A.1</b>	Accounting Services, with stakeholder feedback, will develop a consolidated procedure manual that provides general guidance, such as outlining or referring to existing current internal procedures regarding, but not limited to: <ul style="list-style-type: none"> <li>• Card issuance</li> <li>• Compliance reviews</li> <li>• Delinquency tracking</li> <li>• Cardholder separation</li> </ul>
	<b>Implementation Date</b>
	November 30, 2021
	<b>Responsible Manager</b>
	Director of Accounting Services

#### A. Lack of Consolidated Internal Written Procedures – Detailed Discussion

Based on stakeholder interviews and review of supporting documentation, we determined that current processes overall ensure CTE cards are appropriately managed. However, although current documented procedures are very thorough and detailed, they are not consolidated in a single document that can be easily referenced by new staff. The establishment of centralized, formal procedures promotes efficiency, clarity and ensures processes are not lost, especially upon separation or reorganization of key staff. During the audit, we made the following observations:

- Current processes are documented through detailed, written instructions. However, they are not consolidated in a single document that can be easily referenced by new staff. As the CTE Card becomes more widely adopted by campus staff, there will be inevitable growth in volume of transactions. Having a procedure to document general processes would contribute to efficiency during this growth and ensure knowledge transfer in the event of key staff separation or reorganization.
- Through initial interviews with key stakeholders, it was our understanding there was some uncertainty regarding formal responsibility of reviewing transactions for compliance with appropriate policies. At the start of the audit, Financial Administrative Services and Transactions / Accounts Payable (FAST/AP) was presumed to be performing the formal review for policy noncompliance, but review results were not consistently communicated to the CTE Office, which uses this information to track cardholders who are repeatedly noncompliant or delinquent.

During the audit, we were informed that the Accounts Payable Director has communicated formal ownership of this responsibility to appropriate FAST/AP staff, which includes the process to communicate results of

reviewing for policy noncompliance to the CTE Office. Documenting or referencing this ownership and process as part of a consolidated procedure may help maintain clarity for future staff.

- As stated earlier, the CTE Office is a relatively new unit. Although the CTE Card has become more widely adopted by the campus, unit resources remained limited to three staff who have additional responsibilities not limited to CTE Card management. During the audit, we were informed that a key staff member was temporarily reassigned to assist with another unit. In this instance, having a procedure to document general processes would allow the remaining staff to efficiently reference procedures and adapt to new responsibilities, especially as travel increases with the measured lifting of certain COVID-19 travel restrictions.

**B. Strengthen Support Documentation**

Overall, transactions charged to the CTE Card are in compliance with relevant UC policies and campus guidance. However, there are opportunities to strengthen support documentation, improve timeliness, and ensure the processes for verifying Travel & Entertainment Reconciliation Form (TERF) Tier 2 approvals are efficient.

**Risk Statement/Effect**

- In the event of an external review, the strengthening of supporting documentation will help avoid misunderstandings and will ensure the process is less burdensome for campus staff.
- Improving the timeliness of cardholder submission will help ensure better alignment with UC Policy G-28 and campus guidance, which requires cardholders to file TERFs within 30 days after each statement becomes available.
- Improving the processes for verifying TERF Tier 2 approvers will increase efficiency and reduce the burden on FAST/AP staff in researching this information when requested by the CTE Office, campus departments, or external reviewers.

**Agreement**

<b>B.1</b>	Accounting Services will: <ul style="list-style-type: none"> <li>• Continue to provide regular training and guidance to campus travelers and CTE cardholders to promote a better understanding of compliance with UC policy and campus guidance in areas including, but not limited to:                         <ul style="list-style-type: none"> <li>○ Substantiation of expenses</li> <li>○ Itemized receipts</li> <li>○ Submission deadlines</li> </ul> </li> <li>• Review current processes to improve efficiency in identifying Tier 2 approvers for CTE Office and other campus departments. This should include, but is not limited to, ensuring approvers are identifiable.</li> </ul>	<b>Implementation Date</b>
		November 30, 2021
		<b>Responsible Manager</b>
		Director of Accounting Services

**B. Strengthen Support Documentation – Detailed Discussion**

The results of our testing found that sampled transactions charged to the CTE Card are overall in compliance with relevant UC policies and campus guidance. However, there are opportunities to strengthen support documentation, improve timeliness, and ensure the processes for verifying Tier 2 approvals are efficient. Since the CTE Card program and office is relatively new, we understand there is an initial adjustment period for new cardholders, the CTE Office, and other supporting units. However, through our audit work, we observed continual efforts to increase process efficiency and ensure cardholder compliance with relevant UC policies and campus guidance. From a judgmental sample of 15 transactions, we performed 38 tests and found the following:

- One sample did not provide documented substantiation that the direct route was taken when claiming mileage. Since the documentation included the origin and destination, the auditor was able to independently verify mileage claimed indicates the most direct route was taken. UC Policy G-28 (pg.40) states substantiation must include:

*The origin and destination of the trip and the route taken... Any substantial deviation from the distance shown in a standard highway mileage guide must be explained.*

In this instance, while it could easily be surmised that the most direct route was taken, it may be prudent to include some substantiation to strengthen support in case this is unclear to an external reviewer.

- During our review of eight hotel receipts, we found one receipt was not itemized. As a result, we were unable to determine whether the rates were within policy limits. UC Policy G-28 (pg. 24) states:

*Lodging expense reimbursements are actual up to \$275 per night before taxes and mandatory hotel fees and must be supported by original itemized receipts, regardless of the amounts incurred, and must be reasonable for the locality of travel. When the traveler is unable to secure lodging at \$275 per night or less, the traveler must submit additional documentation such as price comparisons within the proximity of the meeting location that supports the higher lodging rate incurred. The price comparisons should be performed at the time of booking. A traveler who is required to attend a conference where the prearranged conference lodging rate exceeds the \$275 per night cap may stay at the conference hotel without exceptional approval.*

- We found four out of 14 samples completed and signed the TERF past 45 days after the statement close date. Of these, we noted that one was past the deadline due to being a resubmission. Although there is no formal campus policy, campus guidance and interviews with CTE Office staff state that cardholders must file TERFs within 30 days after each statement becomes available. UC Policy G-28 (pg.39) also states:

*The travel expense claim must be submitted to the disbursements/travel accounting office (or equivalent office on campus) within a reasonable amount of time not to exceed 45 days after the end of a trip unless there is recurrent local travel, in which case claims may be aggregated and submitted monthly. [If a Travel Card is used, campuses have the discretion to require a shorter time frame for submission of the travel expense claim]. When a trip lasts more than 90 days, the traveler must submit a quarterly report of expenditures to the disbursements/travel accounting office. Travel reimbursement requests submitted after 45 days are left to the discretion of the campus, considering the facts and circumstances, whether the reimbursement will be made and if any reporting as taxable income will be required.*

We understand that our audit period encompasses transactions at a time when this was a relatively new process to the campus, and that continual improvements were being made to improve this aspect, such as providing campus training and establishing procedures to track the timely submission of TERFs.

- 12 approvals had illegible signatures and required FAST/AP confirmation that they were appropriate. Through further follow-up, we were informed that a list of Tier 2 approvers was not readily available to the campus community outside of FAST/AP, which also heavily relies on staff institutional knowledge and/or research to identify the appropriate approver.

During the audit, we were informed that CruzFly will not be utilizing Tier 2 approvals. Although this process is anticipated to no longer be needed after the full implementation of CruzFly, it may be more efficient to provide the CTE Office, as well as the campus, with an online, updated list of Tier 2 approvers as a quick reference. It may also be prudent to internally keep track of approvers in the event of an external review. Through an interview with management, we were informed that there is a lack of resources to create and maintain such a list of approvers. However, establishing a way for staff to independently reference this information could help reduce the need for inquiries by campus departments and the CTE Office; FAST/AP procedures would still require staff resources to research and identify the appropriate approvers.

**APPENDIX A. SUMMARY OF WORK PERFORMED AND RESULTS**

<b>Preliminary Analysis</b>	
<b>Work Performed</b>	<b>Results</b>
Reviewed UC and UC Santa Cruz policies, best practices, and other relevant guidance.	1. We identified the most relevant policies and guidance: <ul style="list-style-type: none"> <li>• UC Policy G-42 Gifts Presented to Non-Employees on Behalf of the University</li> <li>• UC Policy G-41 Employee Non-Cash Awards and Other Gifts</li> <li>• UC Policy G-28 Travel Regulations</li> <li>• UC Policy BUS-79 Expenditures for Business Meetings, Entertainment, and Other Occasions</li> </ul> 2. We reviewed the following local guidance: <ul style="list-style-type: none"> <li>• UCSC Travel Guide</li> </ul>
Reviewed relevant audit or advisory reports conducted at UC campuses.	We identified common issues from reviewing the following reports at other campuses: <ul style="list-style-type: none"> <li>• UCD: Internal Controls - Travel and Entertainment issued June 2019.</li> <li>• UCR: Internal Audit of Travel &amp; Entertainment Corporate Charge Cards issued December 2018.</li> <li>• UCM: Review of the Travel and Entertainment Card Program issued October 2014.</li> </ul>
Interviewed key stakeholders to obtain their concerns, and key staff.	Documented concerns.
Performed a general walkthrough of CTE Office processes.	Gained an understanding of campus processes and procedures.
Reviewed interviews, walkthroughs, provided procedures, and other relevant documentation.	Developed a risk matrix and audit program to address the risk areas identified.

<b>Fieldwork</b>	
<b>Work Performed</b>	<b>Results</b>
To determine whether transactions are in compliance with UC policies such as G-28, BUS-79, and other relevant policies, performed the following steps:	
Performed interviews with key stakeholders and staff to gain an understanding of the CTE Card process.	Based on our interviews, we observed a high level of procedural detail. However, this information is not consolidated.

<b>Fieldwork</b>	
<b>Work Performed</b>	<b>Results</b>
Obtained transactions from US Bank for the period FY 2018-2020 and performed an analysis.	From this data, judgmentally selected 15 transactions based on prior interviews, the risk assessment, frequency of travel per traveler, amount, and transaction type.
Obtained supporting documentation from the CTE Office.	Additional follow up with Accounts Payable/ FAST to confirm documentation was not missing.
To determine whether reimbursements have a properly documented business purpose, checked the Travel & Entertainment Reconciliation form (TERF) business purpose and/or Destination of Trip.	All 15 samples had an appropriate and properly documented business purpose.
To determine whether transportation charges are reasonable for mileage, checked if claimed expenses were calculated accurately and if the most direct route was taken.	For this sample, the direct route was not substantiated, but the auditor independently verified mileage claimed indicates the most direct route was taken.
To determine whether meals were within prescribed policy limits, <ul style="list-style-type: none"> <li>• For short-term stay, totaled subsistence receipts to ensure they were under the CONUS rate and also in agreement with claims in the TERF.</li> <li>• For long-term stay, per diem is claimed and receipts are not needed.</li> <li>• For entertainment purposes, that per-person maximum rates are in compliance with those set forth in BUS-79 Appendix A.</li> </ul>	For all three samples, meals were within prescribed policy limits.
To determine lodging expenses were reasonable, <ul style="list-style-type: none"> <li>• For short-term stay, totaled receipts to ensure they were under the CONUS rate for the area.</li> <li>• For long-term stay, per diem is claimed and receipts are not needed.</li> </ul>	Out of eight samples, one sample did not itemize the hotel rate. Remaining seven samples were appropriate.
For all other transactions or transactions unique to athletic activity, determined compliance with relevant UC and campus policies and identified whether a receipt was provided.	For three samples, we verified that the receipt amount matched the statement amount for the following purposes: <ul style="list-style-type: none"> <li>• Reserving a public golf course for a tournament</li> <li>• International soccer tour</li> <li>• Sponsorship/Exhibit for recruiting</li> </ul>
To determine whether approvals were appropriate, <ul style="list-style-type: none"> <li>• Obtained list of Tier 2 approvers from Accounts Payable.</li> <li>• If signature is illegible, sent to Accounts Payable for confirmation.</li> </ul>	12 out of 14 samples had illegible signatures that required confirmation from FAST/AP that they were appropriate. Remaining samples were legible and appropriate.

<b>Fieldwork</b>	
<b>Work Performed</b>	<b>Results</b>
<p>To determine whether documentation was submitted to the CTE Office timely,</p> <ul style="list-style-type: none"> <li>• Identified the cycle close date for each transaction.</li> <li>• Identified the date of the last approving signature.</li> <li>• Compared the results from prior steps to determine whether this is less than 45 days.</li> </ul>	<p>Four out of 14 samples were signed past 45 days after the statement close date. One sample was resubmitted past the 45 days after statement close date. Remaining samples were signed within 45 days after statement cycle close date.</p>