

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO  
AUDIT AND ADVISORY SERVICES**

**Executive Travel & Entertainment Review  
Project #17-093**

**July 2017**

University of California  
San Francisco



**Audit and Advisory Services**

July 28, 2017

**John Ellis**  
Associate Vice Chancellor & Controller

**Keith Farmer**  
Controller, UCSF Health

**SUBJECT: Executive Travel & Entertainment Review**

Audit and Advisory Services (A&AS) completed a review of travel and entertainment expenses incurred by senior executives. The purpose of the review was to assess the adequacy of the processes and controls in place for the reimbursement process and to ensure compliance with University policies.

Our review was completed in June 2017 and the preliminary draft report was provided to department management in June 2017. Management provided their final comments and responses to our observations in July 2017. The observations and corrective actions have been discussed and agreed upon with department management and it is management's responsibility to implement the corrective actions stated in the report. In accordance with the University of California audit policy, A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

A handwritten signature in black ink, appearing to read 'Irene McGlynn', is written over a horizontal line.

Irene McGlynn  
Director  
UCSF Audit and Advisory Services

## EXECUTIVE SUMMARY

### I. BACKGROUND

At the request of the Office of the President, UCSF Audit & Advisory Services (A&AS) conducted a review of the travel and entertainment (T & E) expenses reimbursed to senior executives who are part of the Senior Management Group (SMG) personnel program. There are a total of 16 SMG executives; 10 Campus and 6 UCSF Health (Health). The purpose of the review was to determine whether reimbursements of T&E expenses for senior executives complied with University policies to reduce the risk of financial loss from unallowable expenses and reputation risk from inappropriate or unreasonable expenses.

At UCSF the system used by employees to request reimbursements is MyExpense, a third-party hosted, web-based, expense reporting system. Users submit expense reimbursement requests, attach receipts, and manage the approval routing workflow within the system. MyExpense was implemented by the Campus Controller's Office (CCO) in April 2011. It was later piloted to one Health department in November 2015, and opened to all Health departments in January 2016. MyExpense is configured with several UC T&E and Meeting & Entertainment policy audit rules to generate notifications to Campus Accounts Payable (A/P) such as when business or first class airfare is booked, and requiring submission of exception approvals for meals related to team morale-building, employee recognition, or appreciation events.

The Connexus web portal was implemented in August 2013 as a UC system-wide travel program for employees to book cost-saving airfares through multiple suppliers, including UC Travel Center (UCTC), BCD Travel, and Balboa Travel. For airfares booked through UCTC and BCD Travel, direct billing is set up through Campus Accounting.

A standard approval workflow is set up in MyExpense by control points at each school, Campus central administration functions, and Health cost center management teams. In addition to the standard approval workflow, all SMG T&E reimbursements submitted are flagged and undergo additional review by Campus A/P to ensure that:

- Proper approvals are obtained;
- Documentation properly supports the requested reimbursement; and
- Reimbursement complies with University policies and guidelines, including appropriate approval for exceptions to policy.

### II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess the adequacy of the processes and controls in place for T&E expense reimbursement process, including:

- Reimbursement of expenses were properly approved and in compliance with policies;
- Adequate support documentation was obtained; and
- Any deviation from policy is reasonable and approved.

The scope for the review included T&E expenses incurred by SMG executives for the period July 1, 2015 – March 31, 2017. We reviewed 63 of 247 (25% of requests) expense reports, totaling \$73,621 (59% of \$123,088 amount reimbursed) for 16 SMG executives. The specific break down of the 63 expense reports is shown below:

- a. Campus:
  - 29 travel expense reports related to 188 transactions totaling \$50,994
  - 12 entertainment expense reports related to 19 transactions totaling \$5,905
- b. UCSF Health:
  - 10 travel expense reports related to 85 transactions totaling \$7,331
  - 12 entertainment expense reports related to 12 transactions totaling \$9,391

Procedures performed as part of the review included interviews with Campus and Health A/P and MyExpense approvers; reviews of documentation submitted by SMG executives in support of reimbursement request/expense report; and determining whether expense reports were in compliance with University policies, listed below, governing employee T&E:

- 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 300-43 Travel & Meeting /Entertainment

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended, nor can it be relied upon, to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in June 2017.

### III. **SUMMARY**

Based on work performed, opportunities for enhanced controls and processes exist in the areas of ensuring the identification or prevention of duplicate payments within the MyExpense system, obtaining proper support documentation, ensuring appropriate authorized approvals are obtained and timely submission of expense claims.

The specific observations from this review are listed below:

- Controls are not sufficient to identify duplicate submissions and prevent overpayments;
- Expense claims were not consistently routed to the appropriate approver for SMG executives; and
- Expense claims are not always submitted timely.

Additional opportunities for improvement are recommended for the following:

- Advance payments; and
- Inaccurate and incomplete documentation and data in MyExpense.

Further details on the specific observations and management corrective actions are set out below.

V. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (“MCA”)

A. Travel & Entertainment

No.	Observation	Risk/Effect	Recommendation	MCA
1	<p><b>Controls are not sufficient to identify duplicate submissions and prevent overpayments.</b></p> <p>We identified three instances of duplicate payments for two SMG executives with overpayment totaling \$1,405:</p> <ul style="list-style-type: none"> <li>• <b>Duplicate reimbursement of \$801 for retirement dinner:</b> Two different employees submitted the same expense for reimbursement. Both submissions were reviewed and approved by the same authorized approver, who did not detect the duplication. The submissions were then routed to Campus A/P for final approval and payment. Each submission was reviewed by a different reviewer within A/P, so the duplication was also not detected. During the audit, the duplicate payment was paid back to the University by the SMG executive who had received it.</li> <li>• <b>Duplicate reimbursement of \$225 for dinner:</b> A receipt for dinner of \$225 was submitted twice within the same month by the same submitter, for a total overpayment of \$225. The same authorized approver reviewed both expense reports, but did not identify the duplicate. Both submissions were then routed to the</li> </ul>	<p>Potential financial loss and reputational risk to the University for unidentified duplicate payments.</p>	<p>a) Campus A/P should recover the overpayments from the SMG executives, and to document the repayment information in MyExpense Comment History to provide trail of resolution.</p> <p>b) Campus and UCSF Health A/P offices should assess the feasibility of developing a monitoring report to identify duplicate reimbursements for all employee expense claims as an additional control to catch errors not identified through the standard approval workflow. The report should be distributed to approvers for review and follow-up.</p> <p>c) UCSF Health and Campus A/P offices should communicate to the MyExpense</p>	<p>a) Campus A/P has completed the recovery of the overpayments from both SMG executives.</p> <p>b) Campus A/P will work with A&amp;AS to assess solutions and tools for the identification of duplicate expense payments including the feasibility to build a Duplicate Expense Payment report based on dollar thresholds and risk profile.</p> <p><b>Responsible Party</b> AVC &amp; Controller</p> <p><b>Target Date:</b> March 31, 2018.</p> <p>c) Campus A/P will continue to educate and reinforce policy requirements through</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>same Campus A/P reviewer, who did not identify the duplicate payment.</p> <ul style="list-style-type: none"> <li> <b>Duplicate reimbursement of \$379 for business dinner:</b> A support staff submitted the expense claims twice for a corporate card transaction. The electronic receipt was mistaken to be an out-of-pocket expense while the printed receipt was noted as corporate card transaction. Both reports were routed to two separate approvers at the department and two separate approvers at Campus A/P. </li> </ul> <p>The MyExpense system is not set up to identify T&amp;E duplicate payments, except for airfare purchases made through Connexus with direct bill via UCTC and BCD Travel using matching criteria of employee name, airline, date of travel, and dollar amounts.<sup>1</sup></p> <p>To identify duplicate expense submissions there are two manual processes: monthly General Ledger verification review or the MyExpense approver verification. However, transactions submitted may have had enough time elapsed between submissions to make it difficult for the approver to recall if an expense claim had already been submitted. Additionally, a submitter can bypass the original approver and resubmit to a different approver making it difficult to detect the duplicate submission.</p>		<p>Reviewers and Approvers community the need for extra vigilance and oversight of potential duplicate payments, including notation on the receipts of the submission date to prevent duplicate submission.</p>	<p>publishing an article in the August newsletter reminding travelers about the timely submission of expense reports, paying the correct individual, required receipts and selecting the authorized approver. Once the draft is approved by Campus, this will be sent to UCSF Health for publishing in their weekly Manager Newsletter.</p> <p><b>Responsible Party</b> AVC &amp; Controller</p> <p><b>Target Date:</b> August 31, 2017</p>

<sup>1</sup> Campus A/P monitoring report, "MyExpense to Connexus" Report, has identified and recovered overpayments for travel amounting to \$2,106 for the two quarters ending March 31, 2017

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2.	<p><b><i>Expense claims were not consistently routed to the appropriate approver for SMG executives.</i></b></p> <p>For both Campus and Health SMG executives, we noted that while the expense claims were valid, there were instances of the expense reports being reviewed and approved by financial analysts or department managers who may not be considered as “high-level” individuals required per University policy G-28.</p> <p>The reason for this occurrence is that the authorized approvers as defined in the MyExpense workflow is driven by cost center/department ID. As such, if an expense claim is submitted with a selection of a particular cost center/department ID, then it will be routed and approved by the authorized approver for that cost center/department unless an additional designated approver is selected.</p> <p>Per G-28 Policy, the Chancellor may designate one or more approving Vice Chancellors to approve travel expenses incurred by the Vice Chancellors, Deans, and Medical Center Directors. “In lieu of reviewing and approving each travel expense claim, the designated Vice Chancellor may appoint a high-level individual on his or her staff who is knowledgeable about the travel regulations to review and approve the travel expense claim for policy compliance.”</p>	<p>Reputational risk when senior executive’s expenses are not review and approved by appropriate authorized approver.</p>	<p>a) Health Finance should define authorized approver(s) for SMG executives. The approvers should be added to the approval workflow for SMG executive expense submissions to ensure that appropriate review and approvals are performed.</p> <p>b) Campus A/P should verify that SMG executives’ expense submissions are approved by those defined in their T&amp;E Approval Matrix, including expenses for the Executive Vice Chancellor &amp; Provost to be routed to the Chancellor for review.</p>	<p>a) UCSF Health A/P will document the list of authorized approvers for SMG executive expense claims.</p> <p>b) UCSF Health A/P will conduct targeted training for SMG expense claims delegates and approvers to ensure that the appropriate review and approval is performed.</p> <p><b>Responsible Party:</b> UCSF Health Finance Director</p> <p><b>Target Date:</b> September 30, 2017</p> <p>c) Campus A/P will publish in the August newsletter an article reminding travelers about the timely submission of expense reports, paying the correct individual, required receipts and selecting the authorized approver. Once the draft is approved by Campus, this will be sent to UCSF Health for publishing in their weekly Manager Newsletter.</p>

No.	Observation	Risk/Effect	Recommendation	MCA
				<p><b>Responsible Party:</b> AVC &amp; Controller</p> <p><b>Target Date:</b> August 31, 2017</p>
3.	<p><b><i>Expense claims are not always submitted timely.</i></b></p> <p>For both Campus and Health, we noted that 35 of 306 expense receipts were submitted after 45 days from the transaction dates, 32 of the 35 late receipts submitted were over the 60 days Internal Revenue Service (IRS) reasonable limit.</p> <p>These are non-compliant instances per BUS-79 Policy, as they exceeded the 45 days that was established by UC as a safe harbor threshold to ensure compliance with the 60 days threshold set by IRS Publication 463 as “reasonable period of time” or the reimbursement may be taxable [to the employee] for federal, state, FICA and Medicare; and withholding tax must be taken.”</p> <p>BUS-79 Policy leaves it at the discretion of the campus as to “whether to reimburse the expense or whether a reimbursed late submission is reported on the employee's IRS Form W-2.”</p> <p>The CCO has not decided on enforcement of late submission as taxable income, but they have started to submit quarterly 45 Days Notification</p>	<p>Untimely expense claims risk non-compliance with IRS guidelines and putting the University at risk for misstating of income.</p>	<p>a) The CCO should re-evaluate the effectiveness of the 45 Days Notification Report distributions being sent only to the Business Officers and consider the inclusion of Head of Units in the distribution and understand what actions are being taken by them to achieve greater compliance.</p> <p>b) The CCO should assess the degree and frequency of non-compliance with the 45 day claim submission policy requirement and consider whether the enforcement of late expense claims (after 60 days) as taxable income is warranted.</p>	<p>a) The Head of Units will be included in the distribution of the quarterly 45 Days Notification Reports.</p> <p><b>Responsible Party:</b> AVC &amp; Controller</p> <p><b>Target Date:</b> September 30, 2017</p> <p>b) Campus &amp; UCSF Health A/P will monitor and identify employees that frequently submit expenses claims beyond the 45 days. Process for notification and imposition of taxable income for repeat “offenders” will be discussed with the UCSF Control Points for input.</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>Reports to approvers who are identified as “Business Officers” (per recommendation by campus control points group) to relay to further appropriate parties including “Head of Unit” within both Campus and Health to communicate and create awareness on timely submission of expense claims.</p>			<p><b>Responsible Party:</b> AVC &amp; Controller</p> <p><b>Target Date:</b> September 30, 2017</p>

**B. Opportunities for Improvement**

No.	Observation	Risk/Effect	Recommendation
1	<p><b><i>Reimbursements that are paid in advance of the completion of the business trip or event are not tracked to ensure repayments are not due to the University for cancellations.</i></b></p> <p>We noted some SMG executives had airfare, conference registration fees and hotel lodging expenses that were reimbursed before the conferences took place. Campus A/P confirmed the business practice of reimbursing expenses prior to the completion of the business trip or event and relying on controls at the department level to identify cancellations that require repayment. Currently, the Campus A/P process does not track and monitor these types of reimbursement payments or notify departments of the need to verify if employee had attended the business event. This creates an opportunity for financial loss as business event schedules could be legitimately cancelled and submitters may forget to repay reimbursed amounts for cancelled events.</p> <p>Practices for reimbursing expenses prior to the completion of the business trip or event are inconsistent across UC campuses. UCLA does not allow reimbursement until the</p>	<p>Reimbursement of expenses before the business trip or event occurs puts the University at risk for potential financial loss when the cancellation of a business event subsequently refunded directly to the employee who had received advance reimbursement or when an employee resubmits an expense claim for an event that had already been reimbursed in advance.</p>	<p>Campus and UCSF Health A/P should consider communicating to employees other options such as:</p> <ul style="list-style-type: none"> <li>• Booking airfare and lodging via Connexus so that costs can be charged directly to department account;</li> <li>• Invoicing of registration fees to the University; or</li> <li>• Use of a department P-card.</li> </ul> <p>If Campus A/P decides to continue with this practice, then they should consider establishing a control for monitoring and alerting departments to verify whether the business trip or event was completed. For business trips or events that were cancelled, Campus A/P can recover payments from the employee if event was refunded to the employee.</p>

No.	Observation	Risk/Effect	Recommendation
	<p>trip has occurred. UC Davis does allow reimbursement of airfare before the trip has occurred, and requires the submitter to note the initial claim for the airfare in their final trip claim. However, UC Davis does not allow reimbursement of hotel deposit until the stay was completed.</p> <p>Relying only on the department to identify cancelations that require repayment to the University may not be sufficient to effectively prevent financial loss to the University.</p>		
2	<p><b><i>Documentation and data in MyExpense were inaccurate or insufficient to support the reimbursement.</i></b></p> <p>Of the 63 expense reports (representing 306 expense receipts) reviewed, the following observations were noted:</p> <ul style="list-style-type: none"> <li>• 8 receipts had insufficient supporting documents, which rendered reimbursement request for the specific expense type ineligible for reimbursement. Examples included lack of original itemized hotel receipts, explanation for unusual items, or conference registration confirmation and/or agenda not attached, or having unreadable receipts.</li> <li>• 22 receipts where date entered into MyExpense did not match receipt date.</li> <li>• 4 receipts where amount entered into MyExpense did not match receipt amount. The discrepancies were minor, and were either due to tipping or tax.</li> <li>• 2 expense reports had adjustments that were not clear how the reimbursed calculation was arrived.</li> <li>• Instances of generic report names were used in expense reports such as “Various Reimbursements” and “Various meetings.” Report name should be meaningful and unique, using month and year to</li> </ul>	<p>There may be a financial loss and reputational risk associated with reimbursement requests that may be approved without appropriate documentation to substantiate T&amp;E costs.</p> <p>Insufficient detailed data hinders the effectiveness of oversight by approvers. And, poor data quality limits the University’s ability to develop monitoring and management reports.</p>	<p>Health and Campus A/P departments should continue to educate and reinforce to MyExpense submitters and approvers the importance of providing sufficient supporting documents to substantiate the business expenses. Additionally, share good practices for accurate and specific descriptions on claim requests in order to have quality data to enable an effective reporting mechanism for oversight.</p> <p>To address the challenge of employee turnover, Campus AP should consider initiating conversations with appropriate parties such as Human Resources, Information Technology, and departments about creating a process to identify any new employees who have been granted default access to MyExpense (through MyAccess single sign on), so that training can be assigned to those individuals.</p> <p>Campus A/P will be reinforcing the importance of accurate and complete submission of expense claim in their August 2017 newsletter (See MCA #1.c).</p>

<b>No.</b>	<b><u>Observation</u></b>	<b><u>Risk/Effect</u></b>	<b><u>Recommendation</u></b>
	<p>distinguish one event from another (e.g. AAMC Conference May 2016). This will allow the department approver or A/P reviewer to identify potential duplicate submissions.</p> <p>Quality data enables better reporting and enhances monitoring effectiveness.</p>		