

The logo for UCI (University of California, Irvine) is displayed in a large, black, serif font. The letters are bold and closely spaced.The text "INTERNAL AUDIT SERVICES" is displayed in a black, serif font, stacked in two lines. A vertical line is positioned to the left of the text.

Paul Merage School of Business
Travel, Entertainment,
and Disbursement Vouchers

Internal Audit Report No. I2020-103

January 16, 2020

Prepared By

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

January 16, 2020

ERIC E. SPANGENBERG
DEAN
PAUL MERAGE SCHOOL OF BUSINESS

**Re: Paul Merage School of Business (Merage) Travel, Entertainment, and
Disbursement Vouchers (DVs) Audit
Audit No. I2020-103**

Internal Audit Services has completed the internal audit in the Paul Merage School of Business and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Vidyanand Choudhary, Senior Associate Dean – Paul Merage School of Business
Tony Hansford, Assistant Dean, Financial & Operational Strategy – Paul Merage School of Business
Diane Sagey, Assistant Dean, Operations – Paul Merage School of Business
Harvey Shieh, Director of Finance – Paul Merage School of Business

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2019-2020 audit plan, Internal Audit Services (IAS) reviewed Merage travel, entertainment, and DV expenditures. Opportunities exist to improve certain processes in travel, entertainment, and DV reimbursements. The following opportunities were noted.

Travel Reimbursements – Pre-authorization for travel trips is not included in travel documentation. Travelers have not always stated reasons for business class travel on the reimbursement request form, in accordance with University of California (UC) - Policy G-28: Travel Regulations (G-28). Furthermore, travelers have not always provided itineraries or programs for domestic and international travel, nor have they always submitted agendas for business meetings, including those conducted while traveling. Travel trips outside of California are seldom made through the UC-managed travel program, and are not registered to provide the traveler with travel insurance. Additionally, Leave of Absence forms are not always completed and approved for academic appointees who will be absent for more than seven days during the school year. This observation is discussed in section V.1.

Entertainment Reimbursements – For hosted entertainment activities, the host is not always completing and signing the host certification form, and including the form in supporting documentation. Furthermore, for some entertainment events that include alcoholic beverages, an approved application to serve liquor is not included with supporting documentation. Furthermore, additional or exceptional approval is not always obtained when required for entertainment events. This observation is discussed in section V.2.

Disbursement Vouchers (DV) – Some Merage payments made to sponsors of Master of Business Administration (MBA) recruitment events were made by DV when use of a purchase order for these transactions may be a better purchasing method. In addition, the Chancellor has not always pre-approved honorarium payments over \$10,000 so approvals are often obtained after the event has occurred. Computers and other electronic devices are sometimes purchased by individuals without purchasing authority in non-emergency situations and/or are delivered to off-campus addresses. Occasionally, DV purchases over \$500 are not post-approved by the Chief Procurement Officer. This observation is discussed in section V.3.

II. BACKGROUND

The Graduate School of Administration was founded in 1965. In 1981, the school changed its name to the Graduate School of Management and offered an MBA degree. In 1987, the school received the Association to Advance Collegiate Schools of Business (AACSB) accreditation. In 2005, the Graduate School of Management officially changed its name to The Paul Merage School of Business (Merage) after entrepreneur and Orange County philanthropist, Paul Merage. In the same year, the alumni network reached 5,000. In January 2015, Merage opened its new Platinum-level rated Leadership in Energy and Environmental Designed (LEED) 78,000-square-foot Merage School building. Currently Merage is home to seven Centers of Excellence, three MBA programs, six additional Master programs, a doctorate program, and an undergraduate business degree program.

Merage employs approximately 300 senate faculty, lecturers, and staff members, and has an operating budget of approximately \$60 million.

III. PURPOSE, SCOPE, AND OBJECTIVES

The purpose of the audit was to assess internal controls around the processing of travel, entertainment, and DV expenditures for Merage, including authorization and approval, as well as reconciliation and monitoring.

The audit scope included a high-level review of travel, entertainment, and DV expenditures for several fiscal years. Primary focus was on FY 2018-2019 expenditures.

The following audit objectives were included in the review.

1. Review trends in travel and entertainment expenditures, and in DV reimbursements.
2. Review samples of travel, entertainment, and DV expenditures from FY 2018-2019.

IV. CONCLUSION

Many processes and procedures pertaining to Merage travel, entertainment, and DV reimbursements appear to be functioning satisfactorily. However, as noted in the Management Summary, many opportunities exist to improve processes to comply with UC/UCI policies and/or best practices.

Observation details were discussed with management, who formulated action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Travel Reimbursements

Observation

IAS reviewed a sample of travel reimbursement requests from FY 2018-19 for Merage. Based on the results of the review, the following opportunities for improvement were noted with some of the sampled reimbursement requests.

1. In one of the sampled reimbursement requests, business class seating was utilized by the traveler. However, there was not any reference in the reimbursement request pertaining to the reason for the business class travel. G-28 requires that travelers provide documentation on the reimbursement request to substantiate business class travel.
2. In another sampled reimbursement request, an itinerary was not submitted for travel to Zurich, Switzerland and Milan, Italy for business development. In addition, there was not any agenda or other information provided for two business meetings that included meals.
3. Many Merage employees traveling outside of California are not making their reservations through the University's managed travel program, and consequently, these travel trips are not being registered through Risk Services. As a result, they are forgoing extensive travel insurance coverage. The travelers booked none of the sampled travel activities through the UC-managed travel program.

4. Merage faculty employees do not always complete the AP-76 Leave of Absence form, which should be completed and approved before the travel trip for leaves of absence greater than seven days during the academic year.

Management Action Plan

By September 1, 2020, all medical notes needed for exceptional travel will be filed and maintained with the Human Resources (HR) team to follow Health Insurance Portability and Accountability Act (HIPAA) compliance, and the finance team will contact the HR team to verify that proper documents are on file as it relates to business class travel.

By September 1, 2020, the internal forms used for reimbursements will include a checklist for the initiator that addresses the need for proper documentation and necessary approvals. This checklist will specifically address business class travel and other key travel reimbursement policies in order to help minimize the chance that these policies are missed.

By September 1, 2020, all policy and procedure manuals regarding Travel will be revised and updated with current policy, and more frequently shared/cited to department team members, initiators, and leaders. These manuals will specifically address many topics including general travel policy and the University's managed travel program, with a goal of providing clear and easily accessible procedures to help inform travelers and ensure reimbursements are made within policy.

Regarding AP-76 Leave of Absence form, our Academic Personnel team has been made aware and has agreed to communicate the leave of absence policy more frequently to encourage compliance from faculty.

2. Entertainment Reimbursements

Observation

IAS reviewed a sample of entertainment reimbursement requests from FY 2018-19 for Merage. Based on the results of the review, the following opportunities were noted with some of the sampled reimbursement requests.

1. For some entertainment events, the event host is not completing and signing host certification forms when required and including the forms in supporting documentation for entertainment events. UC Policy BUS-79: Expenditures for Business Meetings, Entertainment, and Other Occasions (BUS-79) states that the signature of the host must be obtained for entertainment, recruitment, and employee morale-building activities.
2. For some entertainment events at which alcoholic beverages were served, an application to request serving alcoholic beverages was not obtained from UCI Hospitality & Dining Services, as required by Sec. 900-13: Policy on the Sale, Service and Consumption of Alcoholic Beverages. In addition, an approved application should be included with supporting documentation.
3. Additional or exceptional approval is not always obtained when required for some entertainment events.
 - a. The Dean approved an entertainment reimbursement for an annual employee morale-building event that he and his spouse attended. However, the voucher required additional approval. BUS-79 requires that designated vice chancellors review and approve entertainment expenses of the Deans. In addition, BUS-79 states that additional approval is needed for employee morale-building activities and when entertainment is provided to the spouse of the official host or guest.
 - b. In addition, exceptional approval was not obtained when the per-person maximum limits for light refreshments and dinner were exceeded at an event that the Dean attended. BUS-79 states that exceptional approval is needed when meals exceed the maximum per-person limit. The Dean exceptionally approved the entertainment expenditures; however, because he attended the event, the designated vice chancellor should have exceptionally approved the entertainment expenditures.

Management Action Plan

By September 1, 2020, the internal forms used for reimbursements will include a checklist for the initiator that addresses the need for proper documentation and necessary approvals. This checklist will specifically address host signatures, alcoholic beverage permits, employee morale-building event approvals, meal maximum limit approvals, and other key entertainment

reimbursement policies in order to help minimize the chance that these policies are missed.

By September 1, 2020, all policy and procedure manuals regarding Entertainment Reimbursements will be revised and updated with current policy, and more frequently shared/cited to department team members, initiators, and leaders. These manuals will specifically address many topics including those addressed in the internal audit findings, with a goal of providing clear and easily accessible procedures to help inform staff & faculty and ensure reimbursements are made within policy.

3. Disbursement Vouchers (DV)

Observation

IAS reviewed a sample of DVs from FY 2018-19 for Merage. Based on the results of the review, the following opportunities for improvement were noted with some of the sampled DVs.

1. Merage works with companies that sponsor student recruitment events and other activities to help recruit prospective MBA students. The companies are paid directly by DV, which may involve some risk. In FY 2019, Merage requested and received a \$15,000 credit memo from a vendor on an original \$50,000 invoice because student recruitment was less than expected. The use of a purchase order that includes contractual terms and conditions may provide a better method than DVs to transact business with vendors sponsoring student recruitment events.
2. Merage has made annual honorarium payments over \$10,000 to a speaker who has spoken at several annual Healthcare Forecast conferences. UCI policy requires that approval be obtained from the Chancellor prior to offering honorarium payments that exceed \$10,000. However, in FYs 2017-19, approval from the Chancellor was obtained after the event occurred.
3. In March 2016, a Merage event-marketing employee signed an exhibitor agreement (non-transferable contract) to advertise a Merage program in a newspaper's magazine publication. However, the employee was not authorized to sign contracts on behalf of the UC Regents.

4. Employees without purchasing authority purchased computers and tablet devices in non-emergency situations. The employees are reimbursed by DVs. In addition, purchased items are sometimes delivered to off-campus addresses.
5. DVs of purchases of goods or services over \$500 by employees without purchasing authority are not always ad-hoc routed to the Chief Procurement Officer for approval. UCI policy requires the Chief Procurement Officer approve any unauthorized purchases of goods or services over \$500 prior to reimbursement.

Overall, UC policy states that, before employees can be authorized to purchase University goods and services, they need to receive PALCard/Low Value e-training. Purchases are considered unauthorized when made by employees without this training.

Management Action Plan

By September 1, 2020, all policy and procedure manuals regarding DVs will be revised and updated with current policy, and more frequently shared/cited to department buyers, initiators, and leaders. These manuals will specifically address many topics including purchasing, contracts, and honoraria, with a goal of providing clear and easily accessible procedures to help ensure purchases are made within policy.