

UCLA AUDIT & ADVISORY SERVICES



Edwin D. Pierce, CPA
Director
August 9, 2006

CONFIDENTIAL

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UNIVERSITY AUDITOR PATRICK REED:

Re: Senior Management Group Travel and Entertainment Audit Report - #06-604002

Enclosed is the audit report on Senior Management Group (SMG) Travel and Entertainment for the Los Angeles campus. As requested, these results are being addressed to you with copies to local management.

The purpose of this project was to review the campus' administration of travel and entertainment expenses for SMG's for compliance with University policies and procedures. The scope of our review was fiscal year 2004-2005.

Based on the work performed within the scope of the audit, travel and entertainment expenses for SMG members are not fully in compliance with University policies. The appropriateness of some of the expenses was also questionable and further discussion and recovery is in process. We did conclude that if Senior Managers and the staff processing their travel and entertainment reimbursement requests were fully knowledgeable of University policies, many of the policy exceptions identified during the audit could have been prevented.

The review did not find any non-payroll payments to, or on behalf of, SMG members that should have been reported as compensation.

Please let me know if you have any questions.

A handwritten signature in black ink, appearing to read 'Edwin D. Pierce'.

Edwin D. Pierce
Director

Enclosure

AUG 14 2006

cc: S. Abeles
N. Abrams
R. Beatty
A. Mongelli
S. Morabito
D. Neuman
S. Olsen
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SENIOR MANAGEMENT GROUP
TRAVEL AND ENTERTAINMENT
AUDIT REPORT #06-604002

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Background

At the request of the University Auditor, UCLA Audit & Advisory Services (AAS) conducted a review of Senior Management Group (SMG) Travel & Entertainment (T&E) expenses. This report summarizes the results of our review.

Purpose and Scope

The purpose of this project was to review, on a limited basis, travel and entertainment expenses for SMG members to ensure that expenditures were appropriate and in compliance with University policies. Specifically, the review focused on non-payroll payments to, or on behalf of, all 37 permanently appointed SMG program employees at UCLA as of December 31, 2005, with the exception of the Chancellor and Medical Center Director positions that were examined by PricewaterhouseCoopers, LLP. The objective of the project was to determine whether any of the SMG members had received any non-payroll payments that should have been reported as compensation. The scope of our review was expenses occurring in fiscal year 2004-2005.

Identification of Transactions for Audit Testing

In the effort to capture personal expenses in addition to direct payments or reimbursement to the SMG members, A&AS performed queries in the campus Financial System (FS) and Purchasing/Accounts Payable Component (PAC) System of transactions tied to the SMG member's University identification number. The extracts were used to identify to which University full accounting units (FAU) an SMG member's expenses were being charged. For each SMG member, general ledger detail for fiscal year 2004-05 for each FAU was placed in an Excel workbook. All transaction lines reflecting evidence of association with the SMG member (e.g., name or initials) in the "Description," "Reference," "Source," and "Project" field, were accumulated in one

spreadsheet. A judgmental sample of transactions was then selected for detailed testing for each SMG member. The sampling included not only expenses coded as travel and entertainment, but also any others that, based on auditor experience, appeared to be potentially inappropriate.

Transaction Processing Methodology

For the fiscal year 2004-05 period of review, travel and entertainment expenses could be processed at UCLA both manually, using voucher forms, or electronically through the UCLA Express Travel and Entertainment Expense Management System (Express). Express was developed to replace the paper process. In early 2005, UCLA introduced Express Plus, an enhanced version of Express. Express Plus has been successfully implemented in approximately 90% of campus departments and throughout the University of California Office of the President (UCOP).

The new version has several improvements and increased functionality including: improved FAU validation and selection, approver authorization routing based on FAU, workflow management via email notification, and UC Travel and Entertainment policies embedded in the system such that exceptions are highlighted for facilitated input and review. Many travel and entertainment policies are applied during creation and submission of the Expense Report (ER) through the use of "Business Rules" within the Express Plus application. The application may produce warning statements; prompt for required input (e.g., explanation or justification, or other data); and prohibit entry to certain fields based on the information input into the ER.

Summary Opinion

Based on the work performed within the scope of the audit, travel and entertainment expenses for SMG members are not in full compliance with University policies. The appropriateness of some of the expenses was also questionable and further discussion and recovery is in process.

We believe that if Senior Managers and the staff processing their travel and entertainment reimbursement requests were fully knowledgeable of University policies, many of the policy exceptions identified during the audit could have been prevented.

The review did not find any non-payroll payments to, or on behalf of, SMG members that should have been reported as compensation.

Audit Results and Recommendations

- A. SMG members' travel and entertainment expenses were not always properly reviewed and approved at the appropriate level. Almost all of the travel expense vouchers reflected the signature approval of a staff member who reports to the SMG member. Travel and entertainment expenses incurred by the Chancellor and Executive Vice Chancellor (EVC) at UCLA are being reviewed and approved by the Director of Finance in the Chancellor's office. University policy requires that travel and entertainment reimbursements be approved by someone who does not report directly or indirectly to the person receiving reimbursement or benefiting from the expense.

Recommendation: Controls would be enhanced by having the Chancellor's entertainment and travel expenses approved by someone outside of the Chancellor's Office. We understand that the procedures for approval of travel and entertainment expenses for the Chancellors are being addressed by UCOP.

Approval for all SMG members other than the Chancellor should be performed by the individual to whom the SMG member reports. To increase the value of the review process, consideration should be given to reconfiguring or centralizing the travel and entertainment expense review.

For example, since a large number of SMG members report to the EVC, consideration might be given to the creation of an SMG T&E Analyst position to assist the EVC with compliance evaluation. The analyst would scrutinize the transactions for compliance with policy, and completeness of documentation and format (e.g., accurate addition, sufficiently detailed breakdown of expenses, names and positions of attendees) and alert the EVC to items that are exceptions to University policy. The EVC would still need to approve all of the expenses for his direct reports and would be held responsible for compliance with policy or exceptional approval. To promote independence, the analyst position should reside outside the EVC's office.

Response: Concur. It is our understanding that UCOP Financial Management is in the process of reviewing and amending these policies to clarify who should be reviewing the Chancellor's travel and entertainment expenses. We also concur with the finding that the travel and entertainment expenses of all other SMG members should be reviewed and approved by the person to which they report (in most cases the EVC). We support the recommendation that the initial review be centralized in the Chancellor's Office for all SMG members that report to the EVC and believe that creation of a specialized T&E analyst with a direct reporting relationship to the CAO of the Chancellor's Office who would review these transactions prior to EVC approval is a good strategy for ensuring the reviews are thorough and transactions are consistent with policy.

B. Situations were identified where the expense claim was not in accordance with policy. Our sample included 735 expense line items from which we identified the following:

1. Twelve instances of overpayment totaling \$1,109 to 8 SMG members. There were also potential underpayments of \$1,832. The over/underpayments were the result of errors in the preparation of travel claims and several payments in excess of allowed limits for meals, room and airfare charges.
2. One incorrect reimbursement of \$1,070 to a Dean resulting from a misunderstanding related to the purchase and use of athletic tickets for development purposes. Repayment will be obtained for those games where tickets were not used for development purposes.

If Senior Managers and the staff processing their travel and entertainment reimbursement requests were fully knowledgeable of University policies, most of the policy exceptions identified could have been prevented.

Recommendation: Because of UCLA's decentralized administrative environment, departmental travel approvers need to be sensitized to the need for scrutiny of the detail within T&E transactions. In order to function as a qualified reviewer, individuals need to understand travel and entertainment policy. Annual re-training on high risk items and changes in policy is recommended.

Travel Accounting should be more cautious in scrutinizing claimed meal amounts and verify the submission of supporting documentation. Expenses without adequate supporting documentation should not be paid or reimbursed, unless provided for by policy. The implementation of Express Plus may have already enhanced the level of detailed documentation available for evaluation by reviewers.

While Internal Revenue Service (IRS) regulations do not require the retention of itemized receipts under \$75, we strongly recommend that travelers be encouraged to request and submit all receipts whenever available to support expense claims. When travelers consistently claim the maximum daily meal reimbursement of \$50, the availability of receipts evidencing actual expense in excess of \$50 enhances the legitimacy of the claim.

Response: Concur. Corporate Financial Services (CFS) is in the process of developing web-based training in travel and entertainment policy that can be used to provide self-paced, refresher training to campus reviewers/approvers. CFS also is committed to providing regular ongoing updates to travelers, preparers, and reviewers/approvers to address changes in policy. The implementation of Express Plus will provide Travel Accounting with better tools to aid in the review of claimed meal amounts and accompanying documentation. We are also planning to develop monitoring reports for distribution to campus departments to enable them to monitor expense patterns. While we understand A&AS's desire for itemized receipts under \$75 to substantiate the claim for reimbursement, we feel that the collection and retention of these receipts is additional workload that is not required by IRS and is, therefore, ill advised. We

will recommend to departments that if they feel there may be patterns of abuse that would suggest a need to collect documentation from a traveler that they do so on a case by case basis rather than require it for all travelers.

- C. Required documentation was not always retained or provided to adequately support travel and entertainment expenses. Reimbursement or payment requests must include the number of participants, and their occupation or group affiliation, in order to establish the business-related relationship to the University. While numbers of attendees and lists of names are submitted, there is little or no information reflecting the occupation or group affiliation.

Also, while Travel Accounting is considered the official campus office of record for expense documentation, additional documentation occasionally had to be obtained from the individual SMG's offices. Some departments were unable to produce sufficient supporting documentation because they had purged their files after the one year period recommended in travel training.

Recommendation: Express Plus requires that receipts, and other documentation be scanned and submitted to support travel expenses. Approvers and Travel Accounting have the ability to view the scanned copies to evaluate the expense. UCLA recognizes the scanned copy as the official supporting document. If the additional required information about the occupation or group affiliation of the attendees is captured in the entertainment expense reports, Express Plus should improve document retention and retrieval.

Response: Concur. Express Plus has improved document retention and retrieval. We expect to have the system fully implemented by June 30, 2007, with the exception of Medical Center entertainment transactions, which may convert in FY08.

- D. Documentation for entertainment expense reimbursements was not always sufficient to substantiate a justifiable business need for meals as an integral part of administrative meetings involving senior managers.

Recommendation: Training should be provided to SMG members and their staff to sensitize them to the need to provide stronger business justification when meals are involved.

Response: Concur. As previously mentioned, Corporate Financial Services is developing web-based travel and entertainment training modules. In addition, we have been actively meeting with campus departments to sensitize them to the need for stronger business justification and we are returning those reimbursement requests that contain insufficient documentation.

- E. One entertainment expense that included alcohol was appropriately charged to a gift fund, but later transferred to State 19900 funds.

Recommendation: The expense has been transferred from State 19900 funds to an appropriate fund. Campus administrators should be reminded to carefully monitor the transfer of expenses to ensure that expenses are not charged to restricted funding such as State 19900 funds. Corporate Financial Services – General Accounting is exploring the implementation of edits in the Online Non-Payroll Expenditure Adjustment Request application that would preclude or require justified override for the transfer of entertainment requests to State 19900 funds.

Response: Concur. The implementation of Express Plus has provided an additional control for expenses that are unallowable on particular fund sources. We will explore implementation of edits in the online Non-Payroll Expenditure Adjustment Request application to control for transfers of unallowable expenses to particular fund sources.