

June 19, 2006

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University Auditor
Office of the President

**SUBJECT: SMG Travel & Entertainment Review
Audit Services Project # 06-032**

In conjunction with the University-wide reviews of Executive compensation, each campus completed a review of travel and entertainment expenditures for senior executives. The purpose of this report is to summarize the results of the UCSF review.

The objective of the travel and entertainment review was to assess campus implementation and adherence to University policies regarding travel and entertainment.¹ The review focused on direct reimbursements to employees and payments made to entities on behalf of University employees. The scope of the review encompassed activities and transactions in fiscal year 2004-05 for Senior Management Group (SMG) members and was limited to review of travel and entertainment expenses. Substantive testing of a sample of 105 transactions (consisting of 55 entertainment and 50 travel transactions) relating to six active SMG employees was performed for transactions occurring in fiscal year 2004-2005.² As such we can make no assertions on the adequacy of overall controls and operations for the receipt and processing of all travel and entertainment expense reimbursements for all university employees.

The specific procedures performed included:

- Evaluation of the processes for the delegation of authority and approval of exceptions;
- Determination of whether monitoring procedures were in place to assess compliance with University policy and regulations;
- Review of the processes relied upon to recognize exceptional circumstances;
- Identification and analysis of all travel and entertainment expenditures that were reimbursed to the selected senior managers in the sample or direct payments to vendors

¹ Travel Policies: G-28 "Policy & Regulations Governing Travel"; Campus Administrative Policy 300-37 "General University Travel"; Campus Administrative Policy 300-38 "Travel & Per Diem Rates"
Entertainment Policies: BUS -79 "Entertainment"; Campus Administrative Policy 300-25 "Entertainment and Meeting Expense."

² Reimbursements for relocation, temporary housing expenses and other sensitive or unusual payments were examined as a component of the SMG Compensation Review; Ref: Audit Project # 06-031.

on behalf of the senior managers. The analysis focused on identifying anomalies, reimbursements that require exception approvals, and/or trends such as frequent reimbursement for first class travel, international travel, entertainment and travel that included spouses/partners, tickets to sporting events and exceptions to per person limits. Additionally, travel and entertainment expenditures were assessed for reasonableness and to identify whether there may be public sensitivity concerns.

- Assessment of specific travel and entertainment expenditures to determine whether these payments constituted a form of compensable income.³
- Analysis of a Travel and Entertainment Questionnaire completed by each SMG member to determine whether travel and entertainment expenses that were directly charged to University accounts and entertainment expenses incurred by other employees may be related to entertainment being conducted by SMG employees.⁴
- Transaction testing was performed via sampling of travel and entertainment transactions for selected SMG employees. Supporting records were obtained and reviewed to verify compliance with relevant university policies for those transactions selected for detailed review.

Based on the work performed, no incidences of travel or entertainment expense reimbursements that could be construed as a form of compensation for the SMG employees were identified. Assessment of the questionnaire responses revealed general awareness of the processes and procedures for preparing, submitting and approval requirements for travel and expenses reimbursements; however, minor discrepancies in compliance with University policies relating to travel and entertainment approvals and support documentation were noted as follows:

- In 9 instances (16%), fully itemized receipt of the entertainment expense was not provided as required by policy (Ref BUS - 79 VI. D);
- A further 16% of the expense vouchers were not properly approved in that the approvals were either missing or vouchers were approved by employees reporting directly or indirectly to the SMG employee receiving the payment.
- In eight instances (16%) the business purpose of the trip was not explained in sufficient detail as required by policy (Ref: 300-38.III. B);
- One case was identified where a higher per diem rate was claimed for meals and incidental rather than actual amount incurred.

While none of the exceptions noted above were material or significant, the exceptions identified portray the need for reinforcement of policy requirements to improve compliance.

Management Corrective Action

1. Revisions to the Travel & Entertainment Policies are currently under review and revision by the Office of the President. Once the revised policies are issued, the Controller's Office will communicate the revised policy and related requirements to all campus departmental administrators reinforcing their responsibility for ensuring

³ Reimbursements that may be compensable income include first and business class travel, spouse travel; social clubs membership dues, sporting events or theatre shows, etc.

⁴ The T&E questionnaire was sent to all SMG members on active pay status as of 12/31/2005.

compliance with university policy. In addition, Accounts Payable staff will be instructed to be more stringent in their review of expense claims vouchers for compliance with policy prior to processing payments. The Controller's Office is expected to have the communication and review process in place no later than December 31, 2006; and effective two months after the communication will begin returning non-compliant vouchers to departments. During the two month period following the communication, employees submitting non-compliant vouchers will be advised of the error, but reimbursement will be processed.

2. Longer term, the Controller's Office will implement an automated expense reporting system. The system will have built-in edits and business rules to detect errors and/or non-compliance prior to processing of expense vouchers. Proposals for funding allocation and adding the system to the Administrative System Advisory Committee's (ASAC) project list is expected by September 30, 2007.

The management corrective actions included in the body of this report will be added to the Audit Services follow-up database. Periodically, the Controller's Office will be contacted to determine the status of implementation. Additional audit work may be completed to verify actions taken.

If you have any questions or require further information, please do not hesitate to contact me at 502-2238.

Sincerely,

Abby Zubov
Director

c: Chancellor Bishop
Assistant Vice Chancellor & Controller Diamond