MEMORANDUM

Date: July 14, 2015

To: Steve Relyea
Executive Vice Chancellor and Chief Financial Officer

From: Larry Mandel
Vice Chancellor and Chief Audit Officer

Subject: Audit Report 14-40, Executive Travel, Office of the Chancellor

We have completed an audit of Executive Travel, Office of the Chancellor, as part of our 2014 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to the Office of Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by chancellor's office personnel over the course of this review.

c: Timothy P. White, Chancellor
EXECUTIVE TRAVEL

California State University,
Office of the Chancellor

Audit Report 14-40
May 13, 2015
EXECUTIVE SUMMARY

OBJECTIVE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to executive travel and to determine the adequacy of controls that ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, chancellor’s office (CO) travel approval and reimbursement processes and procedures, as of November 17, 2014, taken as a whole, were generally in compliance with California State University (CSU) travel policies and procedures. The audit found no critical weaknesses, and executive travel expenses were, for the most part, processed in accordance with CSU travel policies and procedures and appeared to be reasonable and necessary for the purpose of the business trip.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. APPROVAL OF TRAVEL AND TRAVEL EXPENSES

OBSERVATION

A documented policy or procedure that defined the appropriate individuals responsible for pre-approving travel, including travel exceptions, and travel expenses for CO executives and their spouses/partners who were traveling as authorized volunteers of the CSU was not in place.

We found that the CO did have defined practices in place for the approval of executive travel that appeared to be appropriate, with the chancellor, executive vice chancellor/chief academic officer, or the executive vice chancellor/chief financial officer as the primary approvers of such travel. However, these practices were not documented in CO policies, nor were they always supported by written delegations of authority.

Documented policies and procedures for the approval of executive travel, including travel exceptions, helps ensure that requirements are clear and communicated and improves compliance with CSU requirements.

RECOMMENDATION

We recommend that the CO revise, simplify, and distribute policies and procedures that address the approval of travel, including travel exceptions, and ensure that appropriate delegations of authority are completed as necessary.

MANAGEMENT RESPONSE

The CO will revise, simplify, and distribute policies and procedures that address the approval of travel, including travel exceptions, and ensure that appropriate delegations of authority are completed as necessary. This recommendation will be completed by August 2015.

2. TRAVEL AUTHORIZATIONS

OBSERVATION

Travel authorization forms were not always completed and/or approved prior to travel.

We reviewed 257 business trips taken by executives between August 1, 2012, and July 31, 2014, and found that travel authorization forms were generally available and approved prior to travel by the appropriate individuals. However, we identified a small number of business trips that, while taken for what appeared to be a valid business purpose, were not supported by a travel authorization form and/or were supported by a travel authorization form that was completed and/or approved after the travel occurred. In some cases, this may have been because the trips were scheduled at the last minute, or because approvers were not in the office or immediately available. Despite the lack of proper authorization, our review
determined that the business trips were supported by a travel expense claim (TEC) that was properly approved by the proper authority.

Travel authorization forms that are complete and approved in a timely manner provide documentary evidence that travelers are authorized to travel and helps to ensure compliance with CSU policies and procedures.

RECOMMENDATION

We recommend that the CO either remind employees that travel authorization forms are required to be completed, maintained, and prepared and approved prior to travel, or remove the requirement for pre-approval.

MANAGEMENT RESPONSE

The CO will remove the requirement for pre-approval, as post-travel review and approval is sufficiently robust. This recommendation will be completed by August 2015.

3. TRAVEL EXPENSE CLAIMS

OBSERVATION

TECs were generally in compliance with CSU travel policies and procedures; however, the processing of TECs required improvement.

We found various processing issues in our review of 257 business trips taken by executives and 13 business trips taken by executives’ spouses/partners who were traveling as authorized volunteers of the CSU between August 1, 2012, and July 31, 2014. These issues appear to be due to reasons such as the complexity and cumbersome nature of the current travel policy and the need for enhanced training on CSU travel policies and procedures for executives and their travel preparers upon hire or periodically thereafter. In our discussions with CO personnel, we also noted that the review of TECs by the accounts payable department could be enhanced to ensure that compliance issues are detected, researched, and resolved in timeframes deemed acceptable to management.

Although we found that TECs were not always sufficiently documented to include the reasons and/or explanations for deviating from CSU travel policy and procedures, our review of these trips did find that generally, the travel expenses appeared reasonable, not extravagant, and necessary for the documented purpose of the trip.

In addition, we found instances where the TEC review process did not identify expenses that were erroneously reimbursed to the traveler, primarily due to duplicate reimbursements for items that were direct-billed, paid through the corporate travel card, or already included on a travel claim. These erroneously reimbursed expenses added up to $1,624. We also found three instances where changes in flights should have resulted in refunds totaling $909 from the travel agency, but we could not find evidence of refunds or corresponding credits.
RECOMMENDATION

We recommend that the CO:

a. Review and discuss TEC requirements with employees to ensure that all parties are aware of CSU travel policies and procedures, and address the issues identified above.

b. Review the TEC process to ensure that processing issues are detected, researched, and resolved in timeframes deemed acceptable to management.

MANAGEMENT RESPONSE

The CO will review and discuss TEC requirements with employees to ensure that all parties are aware of CSU travel policies and procedures, and address the issues identified. Further, the CO will review the TEC process to ensure that processing issues are detected, researched, and resolved in timeframes deemed acceptable to management. This recommendation will be completed by August 2015.
GENERAL INFORMATION

BACKGROUND

The CSU pays or reimburses travel-related expenses that are ordinary, reasonable, not extravagant, and necessary to conduct official university business. Official university business may include activities that contribute to any one of the university’s major functions of teaching, research, or public service, such as attendance at conferences, conventions, and business meetings; development activities; and recruitment of staff and students.

Executives at the CSU generally follow the same rules and regulations that govern the travel of other CSU employees. Executives, as defined in this report, include the chancellor and all vice chancellors/executive vice chancellors at the CO.

Although the CSU does not have specific executive travel policies, certain aspects of existing travel policies relate to or pertain directly to executive travel.

Travel expenses for executives can be paid or reimbursed in a variety of ways. The CO commonly pays for rental car and airfare expenses directly via a centralized travel agency or travel account, as well as for any expenses paid on a university-liability travel card. When the traveler pays his or her own expenses and must be reimbursed by the university, he or she submits a TEC and supporting receipts and documents. Additionally, in some cases, auxiliary organizations may process or pay for travel expenses for executives.

SCOPE

Our audit and evaluation included the audit tests we considered necessary in determining whether administrative and financial controls are in place and operative at the CO. The audit focused on procedures in effect from August 1, 2012, through November 17, 2014.

We focused primarily on the internal administrative, compliance, and operational controls over executive travel activities. Specifically, we reviewed and tested:

- Administration of university business travel, including defined responsibilities, current policies and procedures, and adequate training.
- Processes to track and monitor travel advances.
- Payments or reimbursements of travel expenses for executives and their spouses or domestic partners, if applicable, for adherence to campus and CSU policy, including advance authorization, documented business purpose, and supporting receipts and documentation.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and
management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

CRITERIA

Our audit was based upon standards as set forth in CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- CSU Travel Procedures and Regulations G-001
- Executive Order 688, *Delegation of Authority – Approval of Travel Requests*
- Integrated California State University Administrative Manual (ICSUAM) §3103.01, *Disbursements*
- ICSUAM §3601.01, *Travel Policy*
- CSU Risk Management 2013-01, *International Travel and Requirement to Purchase Insurance*
- Government Code §13402 and §13403

AUDIT TEAM

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