

The Regents of the University of California

COMMITTEE ON AUDIT

July 20, 2006

The Committee on Audit met on the above date at the UCSF–Mission Bay Community Center, San Francisco.

Members present: Regents Coombs, Island, Lozano, Parsky, Ruiz, and Schilling;
Advisory member Oakley

In attendance: Regents Blum, Dynes, Gould, Hopkinson, Johnson, Ledesma, Marcus, Pattiz, Schreiner, and Wachter, Regents-designate Brewer and Bugay, Faculty Representative Brown, Acting Secretary Shaw, Acting General Counsel Blair, Chief Investment Officer Berggren, Provost Hume, Senior Vice President Darling, Vice Presidents Broome, Gomes, and Hershman, Chancellors Córdova, Drake, Fox, Tomlinson-Keasey, Vanderhoef, and Yang, Acting Chancellors Abrams and Blumenthal, University Auditor Reed, and Recording Secretary Bryan

The meeting convened at 10:20 a.m. with Committee Chair Ruiz presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of May 18, 2006 were approved.

2. **UPDATE ON SENIOR MANAGEMENT GROUP TRAVEL AND ENTERTAINMENT REVIEW**

University Auditor Reed reported that, in conjunction with the audit of Senior Management Group compensation, the internal auditors throughout the UC system examined Senior Management Group travel and entertainment expenses, the use of administrative funds, and expenses charged to the chancellors' housing accounts. The primary purpose of this tangential audit was to identify any additional forms of compensation represented by payments made to or on behalf of Senior Management Group members that would represent compensable income. As reported previously, no additional forms of compensation in those reimbursements were found; however, a number of opportunities to improve internal controls were discovered.

Mr. Reed reported that the findings touched on a long-standing issue, that the University policy on travel and entertainment requires the traveler's supervisor to review and approve travel and entertainment claims. Such approval can become problematic at the top of the chain. The travel and entertainment of chancellors and laboratory directors is reviewed by a variety of people. At some locations, efforts have been made to provide a layer of independence by using the controller's office as reviewer. At others, they are

reviewed by administrative staff in the chancellor's office. There is a need to provide additional guidance under the policy as to how the expenses of chancellors and laboratory directors can be approved with adequate independence while complying with the spirit of the policy. It was disclosed also that a number of senior managers at the levels of dean and vice chancellor have their travel and entertainment expenses reviewed by administrative staff within their functional units. Compliance with the policy must be reinforced, even though some senior officials are not comfortable being involved in the transactional level review. It is not problematic to have staff review expenses for compliance with policy as long as a senior official has the final approval.

Mr. Reed reported that exceptional travel and entertainment expenses were found frequently to lack an appropriate level of approval or sufficient justification for the exception to policy. No dollars appear to have been spent inappropriately or wastefully, but the level of approval, the background for the reason for the exception, and the approval of that exception were not well documented. It had been discovered earlier that the University's processes for defining what constitutes an exception need assessment in order to ensure that guidance is available on how exceptions are approved, the level of authority necessary for approval, and the reporting of the exception. There is a particular need to tighten the rules in the area of entertainment. For instance, when a campus catering department provides food for an internal meeting, the resulting expenses are often treated as a recharge directly to the functional unit involved. Technically, such expenses require approval under the entertainment policy. The policy also precludes the person who hosts the event from approving the expenses. It was discovered that, in a number of cases, Senior Management Group administrative staff were signing off as the hosts so that their superiors who were participants in the events could provide final approval.

Mr. Reed observed that many such activities are most easily remedied through additional training for travelers and reviewers to make sure they understand and apply the rules. In the few cases where it was discovered that an inappropriate amount had been reimbursed to someone either through clerical error or misapplication of policy, reimbursement from the individual is being pursued.

Monitoring and compliance with the travel and entertainment policy should be evaluated for its efficiency. University employees travel extensively, necessitating continuous monitoring techniques that track systems. Some UC locations have up-to-date, paperless mechanisms in place, an approach that lends itself to capturing more data, resulting in opportunities for better monitoring both for exceptional parameters and spot auditing of transactions.

Mr. Reed reported that the recommendations had been discussed with individual campuses and laboratories. The broader, general comments for the Office of the President have been discussed with financial management employees responsible for travel policy. All involved are in concurrence with the recommendations.

Chairman Parsky asked about the process for putting the recommendations into effect. Mr. Reed responded that the recommendations will go into the audit tracker system for follow up, as do all audit recommendations.

Vice President Broome commented that these recommendations were similar to those of PricewaterhouseCoopers that were received in April. She reported that she had asked each campus' controller to put together and present to her a plan for addressing issues that fall in the areas mostly of inadequate documentation, review, and compliance. In response, each campus has submitted a plan that sets forth the training that will be established and techniques to improve documentation standards and monitoring for compliance. Many will use data mining techniques. Some campuses have begun the process; most will have completed it by fall 2006. The plan at the Office of the President includes making training mandatory so that the employees responsible understand the processes involved in using the systems.

Chairman Parsky believed that, consistent with the Regents' intention to follow all the recommendations that have emerged as a result of recent reports and audits, compliance with each of these recommendations should be tracked. Chairman Parsky suggested that an update on the implementation of the recommendations be provided at the next meeting.

The meeting adjourned at 10:40 a.m.

Attest:

Acting Secretary