

# Fiscal Stewardship

## CSUSM Internal Review Report

February 13, 2020

### BACKGROUND

President Ellen Neufeldt and the California State University (CSU) Chancellor's Office received a complaint alleging excessive spending and the misuse of public funds by a California State University San Marcos (CSUSM) employee. As a result of the complaint, President Neufeldt requested an investigation by the CSU Office of Audit and Advisory Services. Additionally, President Neufeldt directed Finance and Administrative Services (FAS) to complete a comprehensive review of travel expenditures across all divisions, including expenditures funded by both the state and CSUSM Corporation.

Included within this report are the results of the comprehensive internal review along with specific recommendations (e.g., internal audit function, personnel and technology resources, and updated travel guidelines) for CSUSM's future fiscal and operational management.

In summary, of the travel expenses reviewed as part of this internal review (253 separate transactions), 25 transactions (9.88%) were found to include one or more violations of CSU and/or CSUSM travel policies (for a total of 27 expense violations). Additionally, while the majority of travel expenditures were allowable and not violations of policy, we noted a number of concerns related to the purchase of refundable air travel tickets. Lastly, the review identified five additional (1.98%) clerical-only errors.

### SCOPE AND METHOD OF INVESTIGATION

FAS performed a comprehensive review of travel reimbursement transactions to employees made during the 2018-19 fiscal year for the University and its auxiliaries. Reimbursements/transactions mostly likely to have a material departure from travel policy were prioritized for review according to the following criteria:

- All instances of travel greater than \$2,000 in expense for employees with annual travel expense reimbursements greater than \$3,600 (\$300 monthly average).
- All reimbursements for Vice Presidents and Presidents, regardless of annual or single-event amounts. In order to more thoroughly analyze the fiscal stewardship at the highest leadership levels, the business purpose for each travel event of the current and former President and Provost/Vice President of Academic Affairs underwent a secondary review and was verified to be legitimate.
- All errors/violations over \$50 were included in the analysis.

## RESULTS OF INVESTIGATION

### GENERAL FINDINGS

In the review of travel reimbursements, FAS referred to applicable CSU and CSUSM campus policies and procedures<sup>1</sup>. Using the above criteria, 253 transactions were selected for review. Within the 253 transactions, there were 27 identified policy violations. The violations are summarized in the table below.

Travel Selections	Count
<b>Overspending</b>	
<b>Lodging Cost</b>	<b>11</b>
<b>First/Business Class Airfare</b>	<b>2</b>
<b>Airline Seat Upgrades</b>	<b>8</b>
<b>Parking Fees</b>	<b>1</b>
<b>Reimbursement for Personal Travel Expenses</b>	<b>3</b>
<b>Duplicate/Over Payment</b>	<b>2</b>
<b>Total Transactions with Exceptions</b>	<b>27</b>

Overall, the results of this review of the selected travel transactions indicate a travel approval and reimbursement violation rate of 9.88% and thus suggest policy, procedure and practice failures at various stages and levels. Furthermore, the violations suggest patterns of excess.

### GENERAL RECOMMENDED ACTIONS

#### **Internal Audit Function**

Pursuant to a request from President Neufeldt, FAS is hiring a full-time internal auditor. The Director of Internal Audit will provide independent and objective assurance and consulting services to protect, add value and strengthen management and oversight of the University and all affiliated entities (CSUSM Corporation, CSUSM Foundation, and Associated Students, Inc.). Specific responsibilities of the Director are to: review policies and practices; and conduct regular university audits, amongst other duties related to assessing and strengthening internal controls, processes and practices. The Director of Internal Audit will report to the Associate Vice President for Administration with a dotted reporting line to the President.

#### **Ensure Travel Reimbursement Oversight**

<sup>1</sup> Policies referenced above can be found at the following links:

- CSU Travel Policy – ICSUAM 3601.01  
<https://calstate.policystat.com/policy/6965303/latest/>
- CSU Hospitality Policy – ICSUAM 1301.00  
<https://calstate.policystat.com/policy/6597023/latest/>
- CSUSM Corporation Auxiliary Travel Guidelines  
<https://www.csusm.edu/corp/businesssvcesandfinance/travel/corptravelguidelines.pdf>

Pursuant to a request from President Neufeldt, FAS will restructure the travel department, which reviews travel, placing it under direction of the Assistant Vice President (AVP) of Compliance and Operations. The AVP of Compliance and Operations will have dotted line reporting to the President, and will hire an additional staff member to ensure the necessary personnel resources are in place for the appropriate review of expenses moving forward.

Another strategy FAS will use to improve compliance will be to implement new travel software called Concur. Concur is a comprehensive web-based tool that integrates travel request and expense reporting with a complete travel booking solution for higher education business travel. Concur will assist the campus with enforcing internal policies and satisfying external regulations. Concur is estimated to be implemented in the fall 2020 semester.

### **Updating of Travel Guides and Forms**

Pursuant to a request from President Neufeldt, FAS is in the process of updating campus-specific travel guides to make authorization and reimbursement processes and protocols clearer to end-users to decrease errors and confusion. Additionally, FAS has developed a more streamlined Travel Authorization Form to simplify the pre-travel approval processes and to reduce duplication in process.

### **Employee Education and Training**

All employees who have responsibility for preparing or approving travel are responsible for following travel policies and procedures. All management personnel plan (MPP) employees received updated mandatory training as of January 2020. All staff employees who have responsibilities related to preparing travel will receive updated training by the end of March 2020.

In addition to education/training on the travel policies identified as having been violated, this review has elucidated specific travel policies around which further employee education/training would be beneficial. For example, the policy imposes a \$55 maximum daily limit for meals with reimbursement based on actual expenses incurred (as opposed to a per diem). While such policy confusion has not resulted in significant over-reimbursements, it is apparent that the travel meal maximum policy is not well understood among CSUSM employees.

## ***SPECIFIC FINDINGS AND RECOMMENDED ACTIONS***

### **Lodging Cost**

#### **Policy:**

*The nightly lodging rate for domestic travel may not exceed \$275 per night, not including taxes and other related charges. University employees are always expected to seek the best value whenever they obtain lodging.*

(Subsistence Expenses, Section Q, Item 1)

*Travelers to foreign destinations will receive a fixed amount per diem for lodging, meals and incidentals in accordance with the Federal Maximum Travel Per Diem Allowances for Foreign Areas.*

...

*If actual expenses are claimed due to special or unusual circumstances, the traveler must document such circumstances by submitting a written explanation with the Travel Expense Claim.*

(International Travel, Section A)

#### Review Observation:

- Eleven examined transactions include reimbursements for which the lodging exceeded the applicable maximum set forth in the policy (with total lodging expense overage ranging from \$61-\$1,015 per travel event) without documentation explaining the special or unusual circumstances causing the excess lodging cost.

#### Action/Recommendation:

- The implementation of Concur, the aforementioned new travel software system, will programmatically prevent travelers from exceeding the travel cost limits without the appropriate pre-approval exception requirements. The travel software will include an additional service providing travel agency functionality, which will assist travelers in choosing cost-effective lodging.
- The CSUSM pre-approval travel form should include a streamlined method of claiming and documenting a lodging rate exception in order to increase compliance, minimize the documentation burden, and assist employees with travel approval.
- The University has recently established routine and onboarding travel training courses to better educate or remind travelers of the key principles of the CSUSM travel policy and to help reinforce good fiscal stewardship and judgement. Included in this more formalized training is a new session focused on travel-approver training to help leaders more effectively identify items to look for in their review of travel claims. This training will include how to review and validate lodging maximum exceptions. As previously indicated, all MPPs have participated in mandatory training effective January 2020. In addition, all employees who have responsibilities related to preparing and approving travel will be trained by the end of March 2020.

#### **First/Business Class Airfare**

##### Policy:

##### *a) Coach or Economy Class*

*Coach or any other discounted economy-class fare shall be used whenever ticketing restrictions are reasonable. This applies to all travel (domestic or international, or any combination thereof) regardless of the purpose or fund source.*

<https://calstate.policystat.com/policy/6965303/latest/>

*When a traveler prefers to use a higher class than the one authorized for reimbursement, the traveler must pay the incremental cost of the airfare. A documented cost comparison must be attached to the Travel Expense Claim.*

(Travel Policy, Transportation Expenses, Section B, 1b)

**Review Observation:**

- Two transactions include employee reimbursement for the full cost of either first-class or business-class air travel, which is expressly prohibited by CSU-wide policy unless specific circumstances apply. These transactions did not meet the circumstances that would make premium travel allowable.

**Action/Recommendation:**

- The aforementioned additional training will help educate travelers to prevent future violations.
- Concur will prevent travelers from booking flights at premium class.

**Airline Seat Upgrades**

**Policy:**

*The California State University pays or reimburses for travel related expenses that are ordinary, reasonable, not extravagant, and necessary to conduct official University business.*

...

*Transportation expenses shall be reimbursed on the most economic mode of transportation and the most commonly traveled route consistent with the purpose of the trip.*

<https://calstate.policystat.com/policy/6965303/latest/>

**Review Observation:**

- Eight transactions include seat/ticket upgrades.

**Action/Recommendation:**

- Campus travel guidelines should be updated to expressly prohibit the purchase of seat upgrades at the University's expense and clearly delineate the requirement to purchase regular economy or equivalent airfare.
- As discussed previously, the implementation of Concur software will prevent travelers from booking flights at premium class or with prohibited upgrades.

**Parking Fees**

**Policy:**

*The California State University pays or reimburses for travel related expenses that are ordinary, reasonable, not extravagant, and necessary to conduct official University business.*

...

*Transportation expenses shall be reimbursed on the most economic mode of transportation and the most commonly traveled route consistent with the purpose of the trip.*

<https://calstate.policystat.com/policy/6965303/latest/>

*Reasonable charges for parking while an employee is on travel status or on University business away from regular duties also will be allowed for the following:... Day and all night parking on overnight trips away from an employee's normal work location or residence if free overnight parking is not available.....*

<https://calstate.policystat.com/policy/6965303/latest/>

#### Review Observation:

- One transaction includes employee reimbursement for airport parking for a period of 23 days.

#### Action/Recommendation:

- The CSUSM travel guides should be updated to prohibit airport parking beyond a period of five days, unless the traveler requests and is pre-approved for an exception with specific business justification prior to incurring the exception.
- As discussed, the University has recently established routine and onboarding travel training courses to better educate and/or remind travelers of the key principles of our travel policy and to help reinforce good fiscal stewardship and judgement.

### **Reimbursement for Personal Travel Expenses**

#### Policy:

*Substantiation [of travel expense] must include... the purpose for the travel or the nature of the business benefit derived as a result of travel. If any personal leave is taken while on official travel status, the dates of personal leave must be specified within the claim package.*

(Travel Policy, Reporting Travel Expense, Section B)

*When an employee spends a portion of his/her time on personal travel, any employer reimbursement applicable to the personal portion of the trip is taxable unless an exception applies.*

*The value of an employee's international flight will be considered entirely a business cost, and thus completely nontaxable, when... less than 25% of total time is spent on personal activities.*

(Travel Policy, International Travel, Section F)

#### Review Observation:

- Three transactions include employee reimbursement for costs of travel that occurred more than 24 hours before or after time of the stated event/purpose of the travel.

#### Action/Recommendation:

- The above-mentioned additional training will help educate travelers to prevent future policy violations.
- The implementation of Concur, expected in fall 2020, will help prevent travelers from requesting reimbursement for excess travel days without providing a bona fide business purpose.

- Employees found to be out of compliance in this area will be required to pay back the personal expenses and/or the relating cost may be taxable to the employee. Where appropriate, employees may face disciplinary action.

Follow-up Note:

- The Accounts Payable and travel department teams have recovered the funds from the three identified employees.

**Duplicate/Over Payment**

Policy:

*The person due the reimbursement for travel costs incurred is responsible for: ...Certifying he/she: ...Has not and will not seek reimbursement for (1) a duplicate claim....*

<https://calstate.policystat.com/policy/6965303/latest/>

Review Observation:

- Two transactions include employee travel reimbursement cost that had already been paid to the traveler.

Action/Recommendation:

- Employees found to have received a duplicate payment will be required to pay back the duplicate payment and/or the relating cost may be taxable to the employee.
- Adjusting system filters to flag transactions with similar characteristics (e.g., date, dollar amount, and traveler) will help to prevent duplicates.
- Concur, the previously discussed travel software, will increase data entry consistency, thereby reducing the likelihood of duplicate payments.

Follow-up Note:

- The Accounts Payable and travel department teams have recovered the two duplicate payments.

**ANCILLARY FINDINGS AND RECOMMENDED ACTIONS**

**Refundable Airline Tickets**

Review Observation:

- Five transactions include refundable ticket purchases. This appears to be a practice perhaps done with the intent of saving the University monies in the event a traveler needed to make an unexpected change to their itinerary or cancel a ticket. However, when looked at in totality of all CSUSM travelers, the practice of purchasing refundable airfare (at two to four times the cost of a nonrefundable ticket) is still more expensive overall, even if travel changes must be made for business purposes.

Action/Recommendation:

- In order to prevent the University from paying excess costs to mitigate a risk of loss from purchasing a nonrefundable ticket, campus travel guidelines should be updated to prohibit the purchase of refundable tickets, unless the traveler requests and receives approval for an exception with specific business justification prior to incurring the exception.
- Campus travel guidelines should also be updated to require the purchase of regular economy or equivalent airfare.
- As discussed previously, the implementation of Concur software will prevent travelers from booking flights at premium class or with prohibited upgrades.

### **Car Service**

#### **Review Observation:**

- Ten transactions include employee reimbursement for chauffeured executive-style transport services. It is unclear what business purpose was served by this mode of travel and, therefore, it is likely that a more economical alternative was available, such as ride-sharing, taxi, or driving directly via personal vehicle with accompanying parking and mileage reimbursement.

#### **Action/Recommendation:**

- CSUSM travel guides should be updated to indicate that executive-style transport service is not permitted, unless the traveler requests approval for an exception with specific business justification prior to incurring the exception.
- The University has recently established routine and onboarding travel training courses to better educate travelers of the key principles of campus and CSU travel policies and to help reinforce good fiscal stewardship and judgement.

### **Clerical Errors**

As previously indicated, this internal review also revealed five additional (1.98%) clerical-only errors. These errors included documents with minor miscalculations and mistakes in transferring numbers. While these clerical/human errors have not resulted in great additional expense to the University, stronger internal controls and travel preparer/approver training is needed to reduce the University's risk for financial harm.