Compliance, Audit, Risk Management and Legal Affairs (CARL) Committee
August 15, 2023
10:15 a.m.

Discussion Item

CARL-2   Internal Audit Report

Background Information

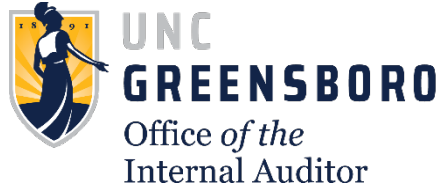Katherine Skinner, Director of Internal Audit, will provide a summary of recent audits performed.

Attachment

     2.1   Summary of Internal Audits Performed

CARL 2.1 Summary of Internal Audits Performed

Report Date:	June 29, 2023
Report To:	Dr. Franklin D. Gilliam, Jr., Chancellor
Subject:	Travel Reimbursement Review Process
Type of Audit:	Internal Controls Audit
Objective:	Determine whether the Controller's Office was effective and efficient in its review and processing of travel reimbursement requests.
Scope:	All travel reimbursement requests processed from January 1, 2022, through November 29, 2022.
Findings:	The travel reimbursement review process was not efficient and resulted in processing delays and adjustments to travel reimbursements as small as $0.01.
	The travel reimbursement review process was insufficiently effective and resulted in payment errors in 19 (9%) out of 202 invoices reviewed.
Recommendations:	AP should require the use of electronic resources for travel reimbursement forms, including, electronic signatures and calculated forms for pre-authorization to travel and requests for travel reimbursements.
	AP should separate the travel authorization form from the travel reimbursement request form to facilitate digitizing the workflows.
	AP should develop and implement a risk-based review approach for travel reimbursement forms to improve efficiency.
	AP should track and monitor errors to identify improvement opportunities for processes and to reduce errors.
Next Steps	A follow-up review has been added to the FY2024 audit plan.
Attachment:	2.1 Travel Reimbursement Review Process Audit Report

TRAVEL REIMBURSEMENT REVIEW PROCESS
INTERNAL AUDIT REPORT

CONTROLLER'S OFFICE

ACCOUNTS PAYABLE

JUNE 2023
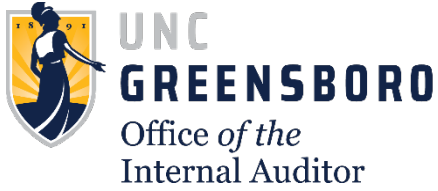
MEMORANDUM

To: Dr. Franklin D. Gilliam, Jr., Chancellor

From: Katherine Skinner, Director of Internal Audit

Date: June 28, 2023

RE: Accounts Payable - Travel Reimbursement Review Process Internal Audit Report

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The Accounts Payable - Travel Reimbursement Review Process Internal Audit was completed by the Office of the Internal Auditor in accordance with the Internal Audit Work Plan for fiscal year 2023. Provided within this communication is an Executive Summary and the Final Report of the Internal Audit activity.

Ghazala Bibi, Controller, reviewed a draft copy of this report. Her written comments are included starting on page 17.

We appreciate the courtesy, professionalism, and cooperation received from management and the employees of Accounts Payable Department and Controller's Office during our audit.

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Executive Summary

PURPOSE

The objective of the internal audit is to determine whether the Controller's Office is effective and efficient in its review and processing of travel reimbursement requests.

The scope of the internal audit is January 1, 2022, through November 29, 2022, and includes all travel reimbursement requests processed during this period.

BACKGROUND

The Controller's Office provides centralized business support and oversight for several financial and accounting-related functions, including Accounts Payable. Accounts Payable is responsible for timely and accurate processing of payment requests that are properly authorized in accordance with University policies, including travel reimbursement requests. The Accounts Payable (AP) Manager is directly responsible for overseeing staff who review and process travel reimbursement requests.

The AP staff are responsible for conducting a detailed review of all travel reimbursement forms and supporting documentation before entering expense transactions into the financial system to authorize payments. AP staff refer to the UNCG Travel Manual to determine the allowability of expenses requested for reimbursement.

KEY FINDINGS

- The travel reimbursement review process is not efficient and resulted in processing delays and adjustments to travel reimbursements as small as $0.01.

- The travel reimbursement review process is insufficiently effective and resulted in payment errors in 19 (9%) out of 202 invoices reviewed.

KEY RECOMMENDATIONS

- AP should require the use of electronic resources for travel reimbursement forms, including, electronic signatures and calculated forms for pre-authorization to travel and requests for travel reimbursements.

- AP should separate the travel authorization form from the travel reimbursement request form to facilitate digitizing the workflows.

- AP should develop and implement a risk-based review approach for travel reimbursement forms to improve efficiency.

- AP should track and monitor errors to identify improvement opportunities for processes and to reduce errors.

- UNCG should require all University employees who travel and all supervisors who approve travel to complete training on (1) allowable travel reimbursements and (2) how to properly complete the travel reimbursement form.

Background

BUSINESS TRAVEL REIMBURSEMENT

UNCG employees are allowed to be reimbursed for travel expenses in accordance with the UNCG Travel Manual while conducting business on behalf of the University. Employees may request travel reimbursement through the Accounts Payable Department of the Controller's Office by completing and submitting a travel reimbursement form, along with supporting documentation for expenses. Several expense types may be submitted for reimbursement including, but not limited to: airfare, mileage when using personal vehicle, meals, and lodging.

The Controller is responsible for overseeing all functions within the Controller's Office. The Controller's Office provides centralized business support and oversight for several financial and accounting-related functions, including Accounts Payable.

ACCOUNTS PAYABLE - MAIN RESPONSIBILITIES

Accounts Payable is responsible for timely and accurate processing of transactions that are properly authorized in accordance with University policies for payment, including travel reimbursement requests. The Accounts Payable (AP) Manager is directly responsible for overseeing staff who conduct the travel reimbursement review process.

The AP staff conduct detailed reviews of all travel reimbursement forms and supporting documentation before entering expense transactions into the financial system to authorize payments. During the detailed review, the AP staff refer to the UNCG Travel Manual to determine the allowability of expenses requested for reimbursement.

During the scope period of January 1, 2022, through November 29, 2022, the AP staff reviewed and processed 3,802 travel reimbursement requests, totaling approximately $2 million.

Objective, Scope, And Methodology

OBJECTIVE:

The objective of the internal audit is to determine whether the Controller's Office is effective and efficient in its review and processing of travel reimbursement requests.

SCOPE:

The scope of the internal audit is January 1, 2022, through November 29, 2022, and includes all travel reimbursement requests processed during this period.

During the period January 1, 2022, through November 29, 2022, AP processed 3,802 travel reimbursement request forms and authorized payments totaling $2,002,441.

METHODOLOGY:

To determine the effectiveness and efficiency of the Controller's Office's travel reimbursement review processes and procedures, auditors performed the following audit procedures:

- Interviewed Controller's Office staff and reviewed policies and procedures.

- Reviewed 202 (5.3%) travel reimbursement requests totaling $403,702 (20%).

- Compared travel reimbursement payments authorized to travel reimbursement request forms and supporting documentation to ensure timely and accurate processing of payments in accordance with the UNCG Travel Manual, State Policies, and best practices.

- Reviewed travel reimbursement request forms to determine the effectiveness and efficiency of the travel reimbursement review process, causes of processing/payment errors, causes of delays in processing the forms, and the impact of errors and delays.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. However, our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Findings

FINDING 1. THE TRAVEL REIMBURSEMENT REVIEW PROCESS IS NOT EFFICIENT

The travel reimbursement review process is inefficient. Accounts Payable (AP) spends an excessive amount of time performing review procedures compared to the value derived from the detailed review. As a result, travel reimbursement payments to employees were unnecessarily delayed. AP performed an extensive detailed review of every travel reimbursement request because AP does not track, monitor, or analyze payment request errors, corrections, or processing time to identify process improvement opportunities. Internal control standards recommend that entities consider the costs relative to the benefits in managing internal control options.

INEFFICIENT REVIEW PROCESSES

Accounts Payable's (AP's) process to perform a *detailed* review of every item on every travel reimbursement request is not efficient as AP spends an excessive amount of time reviewing every detail of every travel reimbursement request and the detailed review results in adjustments to reimbursements as small as $0.01. The extent of AP's review includes manual recalculations, and creating adjustments when applicable, for every item on every travel reimbursement form. However, many of the reimbursement adjustments made by AP have a minimal financial impact negating the value of the time spent performing a detailed review of the forms.

Auditors tested 202 (5%) of 3,802 travel reimbursement requests that were processed by AP between January 1, 2022, and November 29, 2022, and determined that AP made 61 adjustments to requested reimbursement amounts.

AP made corrections (adjustments) to 61 (9%) of the 669 transactions reviewed, many of which were insignificant. For example, AP's current process of performing a detailed review of 100% of travel reimbursement requests resulted in identifying "corrections" as small as $0.01 and $0.03. Of the 61 adjustments, auditors found that eight were for less than $1 and another 13 were for less than $10. The total net impact to travel reimbursement payments was a reduction of $1,280[1] in travel reimbursement payments. Table 1 provides a snapshot of adjustments resulting from AP's review process.

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[1] The net impact of adjustments includes 47 decreases to reimbursement amounts totaling $2,352 and 14 increases to reimbursement amounts totaling $1,072.

Table 1. AP's Adjustments to Travel Reimbursements

Range of Adjustments	AP Increases		AP Decreases		Increase and Decreases Combined		
	Quantity	Total	Quantity	Total	Quantity	Absolute Total	Net Impact
Less than $1	2	$ 0.41	6	$ (2.79)	8	$ 3.20	$ (2.38)
$1 to less than $10	3	11.52	10	(52.98)	13	64.50	(41.46)
$10 to less than $50	1	22.25	15	(375.82)	16	398.07	(353.57)
$50 to less than $100	7	491.91	8	(524.56)	15	1,016.47	(32.65)
At least $100*	1	545.74	8	(1,395.67)	9	1,941.41	(849.93)
	14	$ 1,071.83	47	$ 2,351.82	61	$ 3,423.65	$ (1,279.99)

*Included in this amount is one increase adjustment for $545.74 and one decrease adjustment for $423.20.

REVIEW PROCEDURES RESULT IN DELAYED TRAVEL REIMBURSEMENT PAYMENTS

The travel reimbursement review process causes delays in processing travel reimbursement payment requests. For example, auditors found that travelers waited an average of eight days for payments to be authorized, with 29 of 202 (14%) reimbursement forms taking two weeks or longer for payments to be authorized.[2] Auditors found that AP's time to process and authorize payments for travel reimbursements ranged from less than 1 day to 115 days.

Additionally, AP's review process seems to be delayed to a greater extent when staff review hand-written travel reimbursement forms compared to electronically completed, calculated[3] forms. With an average of 6.7 days for electronic forms and 8.9 days for hand-written forms, the number of days between AP receipt and AP authorization for payment was 2.2 days longer on average, for hand-written forms compared to electronically completed forms. The maximum number of days to process electronic forms was only 42 days compared to 115 for hand-written forms.

Actual time spent reviewing the travel reimbursement requests was not tracked by AP. Therefore, the cost of the travel reimbursement review process cannot be readily determined.

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[2] After payments are authorized by AP payments, there may still be an additional two-to-three-day delay for processing direct debits by banking institutions.

[3] Calculated forms include updated reimbursement rates and formulas used to automatically calculate reimbursement amounts. For example, the total meals per diem reimbursement amount on an updated Calculated form will reflect the correct meals reimbursement amount when the correct number of meals are input into the applicable field.

INAPPROPRIATELY DESIGNED REVIEW PROCEDURES CAUSE PAYMENT PROCESSING INEFFICIENCIES

By examining AP's review procedures and results, auditors determined that AP's travel reimbursement review procedures are inappropriately designed to ensure that time spent reviewing travel reimbursement requests is value added and that travel reimbursements are processed timely.

AP staff perform a detailed review of every travel expense requested for reimbursement, but the detailed review processes do not include a method of tracking, monitoring, or analyzing travel reimbursement review results such as payment request errors, corrections, or time performing detailed reviews.

Because AP does not track, monitor, or analyze results of their review, they cannot evaluate the costs or benefits of their review procedures or identify improvement opportunities. For example, AP recalculated requested tip reimbursements as small as $3 to limit reimbursements for tips to 25%, reducing one requested tip reimbursement by $0.07. AP also recalculated the reimbursement amount when expenses were incurred in foreign currency and the requested reimbursement amount was under $4. However, AP did not track the time spent reviewing, recalculating, and adjusting travel reimbursement amounts. AP also did not track the errors to identify trends and potential corrective action to prevent or limit future errors. Lastly, AP did not track the adjustments to determine the benefit or value of their detailed review procedures.

Additionally, AP staff also make mistakes in manually recalculating reimbursements that result in additional time spent going back-and-forth with the traveler's liaison to determine appropriate expense reimbursement amounts.

AP reviewed 3,802 travel reimbursement forms and authorized over $2 million in payments during the scope period and 30% of travel reimbursement requests included 76% of the travel reimbursement payment dollars. Therefore, if AP limited the detailed review to travel reimbursement forms that are high-risk, AP could save a significant amount of time spent on non-value-added review procedures and process forms more quickly. As recommended in the COSO Integrated Internal Control Framework, the Controller should consider "a variety of costs factors in relation to expected benefits when selecting and developing internal controls" and "**consider the costs relative to the benefits** of alternative approaches in managing internal control options."

FINDING 2. INSUFFICIENTLY EFFECTIVE REVIEW PROCESS RESULTS IN PAYMENT ERRORS

Accounts Payable's (AP) travel reimbursement review process is insufficiently effective. AP made payment **errors in 19 (9%) out of 202 invoices reviewed**. As a result, AP made approximately $12k (3%) in payment errors and authorized approximately $7.8k in payments without required supervisor approvals. Because the travel reimbursement forms and procedures are manual, the review process is also manual and results in errors in AP calculations and inconsistencies in enforcing travel policies when authorizing payments for travel reimbursements. As part of the Controller's Office, AP is responsible for timely and accurate processing of payment requests that are properly authorized and allowable in accordance with the UNCG Travel Manual and State laws and regulations.

AP PROCESSES ARE INSUFFICIENTLY EFFECTIVE RESULTING IN PAYMENT ERRORS

Accounts Payable's (AP's) travel reimbursement review process is insufficiently effective. Specifically, auditors found that AP made payment errors in 19 (9%) out of 202 invoices tested, including overpayments and underpayments resulting in approximately $12k in travel reimbursement payment errors. Additionally, AP authorized $7.8k in reimbursement payments for travel reimbursement requests that were not appropriately approved by supervisors as required by the UNCG policies.

Between January 1, 2022, and November 29, 2022, AP processed 3,802 travel reimbursement requests (invoices) and authorized approximately $2 million in reimbursement payments to UNCG employees for business-related travel. Auditors reviewed 202 (5.3%) of the travel reimbursement requests that resulted in $403,702 (20%) in payments to UNCG employees.

The UNCG Travel Manual states,

> "**Allowable** travel expenses will be reimbursed to authorized University personnel and other individuals traveling on **official state business**."

> "… policies and procedures set forth in this manual applies to **all** University of North Carolina at Greensboro faculty, staff, students, and other individuals who travel on behalf of the University."

> "Traveler's Supervisor Responsibility: Approval authorization for travel is delegated to the traveler's supervisor. This individual's **approval indicates** that **appropriate review** of the cash advance/reimbursement has been made, and the **travel conforms to all rules and regulations and is properly supported with valid documentation and receipts**." [*emphasis added*].

However, AP authorized travel reimbursement payments in incorrect amounts, without proper supporting documentation and receipts, without documentation of a business purpose, without documentation of supervisory approval, or that were otherwise unallowable.

AP DEFICIENCIES WITH TRAVEL REIMBURSEMENT REVIEW PROCEDURES MINIMALLY COST UNCG $12K

AP's insufficiently effective review procedures unnecessarily cost the University $11,468[4] in identified overpayments. Specifically, auditors identified overpayments in the amount of $11,468 of $403,702 (3%) tested. Additionally, had auditors tested the entire population of $2,002,441 in travel reimbursement payments, the identified over-payments most likely would have been higher.

MANUAL AND OUTDATED PROCESSES AND PROCEDURES CAUSE ERRORS

Because the travel reimbursement forms and procedures are manual, the review process is also manual and results in errors in AP calculations and inconsistencies in enforcing travel policies when authorizing payments for travel reimbursements.

The current processes and procedures for submitting a travel reimbursement request to Accounts Payable is outdated causing errors. Specifically, the pre-authorization for travel, as part of the travel reimbursement request form that requires a hand-written versus digital signature results in travelers completing the reimbursement request part of the form by hand rather than using an electronic form. When travelers manually calculate figures and complete forms by hand, they make mistakes. AP also makes mistakes when re-calculating the amounts that are hand-written on forms.

However, the travel reimbursement request form, as currently designed, limits the use of calculated forms for reimbursement requests. The pre-authorization to travel could be edited and separated from the travel reimbursement request – creating two separate forms – to facilitate a requirement to use the calculated/electronic form. The Internal Control Integrated Framework, published by the Committee of Sponsoring Organizations (COSO) recommends implementing control activities, often called "application controls" or "transaction controls," that directly support actions to mitigate transaction processing risks in an entity's business.

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[4] Auditors calculated the potential negative impact to the University based solely on overpayments because the percentage of underpayments was negligible.

Criteria

UNCG POLICIES AND NC LAWS AND REGULATIONS REQUIRE COMPLIANCE FOR EXPENSE REIMBURSEMENT

The UNCG Travel Manual provides basic information on travel policies and procedures. The manual is based on The State Budget Manual, Section 5, which sets forth travel policies and regulations relative to securing authorization and reimbursement of expenditures for official state travel. The administration and control of travel is in accordance with the provisions of North Carolina General Statutes (G.S.) 138-5, 138-6, and 138-7.

The policies and procedures as stated in this manual apply to State Budgeted Funds deposited with the State Treasurer, whether derived from appropriations or agency receipt; Institutional Trust Funds, including Discretionary and Overhead Receipt Funds; and Contracts and Grants.[5]

Official State Business – Required and Applies to Everyone

The University policies and procedures set forth in the travel manual apply to all University of North Carolina at Greensboro faculty, staff, students, and other individuals who travel on behalf of the University. Allowable travel expenses will be reimbursed to authorized University personnel and other individuals traveling on official state business. Exceptions to policy for expense types and amounts must be documented, justified - with a clear business purpose, and approved.

Expense type and amount is sufficiently supported when the reimbursement request includes documentation required to support the expense according to the Travel Manual. For example, hotel expenses must be supported with a receipt that includes the traveler's name, dates of travel, actual room charges, and evidence of payment.

Reimbursable Expenses

There are multiple expense types which are reimbursable for business-related travel. These expense types include, but are not limited to: airfare, mileage when using personal vehicle, meals, and lodging. Each of these expense types have specific rates, limits, and criteria regarding allowability. The UNCG Travel Manual specifically lists criteria for each expense type.

Prudent Use of State Funds

The employee who is traveling on official state business for the University is expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds. Excess costs, circuitous routes, delays, luxury accommodations and services unnecessary, unjustified, or for the convenience or personal preference of the employee in the performance of official business are not acceptable under this standard. Travelers will be responsible for unauthorized costs and any additional expenses incurred for personal preference or convenience.

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[5] UNC Greensboro Travel Manual, July 1, 2022, Purpose & Scope.

State Budget Manual

The State Budget Manual, which provides uniform guidance and minimum standards regarding allowable expenses and reimbursements for travel on official state business, states:

*"Agencies are encouraged to develop internal policies and procedures specific to their operational needs and circumstances. Internal travel policies should be comprehensively reviewed and updated on a periodic basis, consistent with this chapter. **Agency management is responsible for implementing a system of controls to ensure proper oversight, compliance, and accountability with travel policies**." [emphasis added]*

COSO'S INTERNAL CONTROL INTEGRATED FRAMEWORK PROVIDES EFFECTIVENESS & EFFICIENCY BEST PRACTICES

The Internal Control Integrated Framework, published by the Committee of Sponsoring Organizations (COSO) recommends implementing control activities, often called "application controls" or "transaction controls," that directly support actions to mitigate transaction processing risks in an entity's business.

COSO also notes that entities "always have limits on their human and capital resources and constraints on how much they can spend, and therefore they will often **consider the costs relative to the benefits** of alternative approaches in managing internal control options." [emphasis added]

It also states that management should consider "a variety of costs factors in relation to expected benefits when selecting and developing internal controls."

According to COSO, transaction controls are the most fundamental control activities in an entity since they directly address risk responses in the business processes in place to meet management's objectives.

A variety of transaction control activities can be selected and developed, including the following:

Verifications – Verifications compare two or more items with each other or compare an item with a policy and perform a follow-up action when the two items do not match, or the item is not consistent with policy. Examples include computer matching or a reasonableness check. Verifications generally address the completeness, accuracy, or validity of processing transactions.

Authorizations and Approvals – An authorization affirms that a transaction is valid (i.e., it represents an actual economic event). An authorization typically takes the form of an approval by a higher level of management or of verification and a determination if the transaction is valid. For example, a supervisor reviews an expense report after reviewing whether the expense seems reasonable and within policy.

The following information-processing objective definitions are used in the COSO Internal Control Integrated Framework:

Completeness – Transactions that occur are recorded.

Accuracy – Transactions are recorded at the correct amount in the right account (and on a timely basis) at each stage of processing.

Validity – Recorded transactions represent economic events that actually occurred and were executed according to prescribed procedures. Validity is generally achieved through control activities that include the authorization (i.e., approval by a person having the authority to do so) of transactions as specified by an organization's established policies and procedures.

Recommendations

Accounts Payable (AP) should automate or require the use of electronic resources for travel reimbursement forms, such as:

- Require the use of electronic signatures for the travel authorization process.
- Require all travelers to use the calculated travel reimbursement forms.

AP should separate the pre-authorization to travel from the travel reimbursement request to facilitate digitizing or automating workflows.

AP should develop and implement a risk-based review approach for travel reimbursement forms.

AP should track and monitor errors to identify improvement opportunities for processes and to reduce errors.

Additionally, UNCG should require all University employees who travel and all supervisors who approve travel to complete training on allowable travel reimbursements and how to properly complete the travel reimbursement form.

Response from the Controller's Office

The UNCG Controller provided the following response to the audit findings and recommendations:

Thank you for your insightful audit report on our travel reimbursement process, with specific and constructive recommendations.

For Finding 1: We concur that the extensive review process is cumbersome and potentially delays reimbursements. We plan to transition entirely to electronic forms as well as move to implementation of Chrome River travel software, enhancing our efficiency and reducing errors.

Regarding Finding #2: We acknowledge that manual review might occasionally result in AP miscalculations. We have had significant turnover and staff shortages in the area which has also negatively affected performance. We concur with the recommenation to implement a risk based approch to travel review and have implemented steps to focus on higher risk items. We also intend to broaden the use of PCards for travel expenses, reducing costs and increasing efficiency of authorization and appoval.

Since we intend to implement a comprehensive travel system (Chrome River), separating travel pre-authorization process from the pre-authorization of travel does not make sense at this time. Keeping this as one process will ease the transition to the Chrome Rive software Chrome River is a comphrensive solution to both reimbursement and pre-authorization approval successfully implemented at many UNC system universities. Separating them now would require separate data entry, validation, approval, and record keeping processes. In Chrome River they will be seemlessly integrated.

We appreciate your thorough audit, interpreting your findings as opportunities to bolster our systems for the overall benefit of UNC Greensboro.