

# Report Highlights

## Why DLA Performed This Audit

The audit of the university's travel was requested to identify potential savings and efficiencies. This audit reports travel expenditures, identifies opportunities for reducing costs and gaining efficiencies, provides recommendations to reduce the university's travel expenditures, and provides a status of prior travel audit recommendations.

## What DLA Recommends

1. UA's chief financial officer (CFO) should implement a consistent system-wide accounting structure to record travel.
2. UA's CFO should take full advantage of State of Alaska travel-related contracts to reduce travel costs.
3. UA's president should consider acquiring a booking tool to obtain discounts and improve management of travel.
4. UA's president should establish regulations to improve internal controls over EasyBiz accounts and mileage.
5. UA's president should require the travel and expense management system be implemented by all UAF departments.
6. UA's president should consolidate the three UA-issued credit cards into a single corporate account and limit use of personal credit cards for travel.
7. UA's president should improve travel regulations to reduce travel costs.
8. UA's CFO should work with each campus' management to improve the review of travel transactions.

# A Performance Audit of the University of Alaska (UA) Travel

March 11, 2016

**Audit Control Number 45-30086-16**

## REPORT CONCLUSIONS

The university's travel expenditures fluctuated between \$22.1 million in FY 12 and \$21.9 million in FY 14 with a significant decrease to \$18.6 million in FY 15. According to management, the number of trips was intentionally decreased in FY 15 to contain costs. Further savings could be realized if UA implements changes recommended in this audit.

A review of UA's procurement practices found UA did not leverage its buying power and did not take advantage of the State's contracts to achieve the best possible price for travel. Numerous State of Alaska contracts are available to the university that would help reduce travel costs. The audit estimates that the university could have reduced travel costs in FY 15 by \$257,000 in airfares and \$132,000 in car rentals if the State's contracts had been utilized.

Although the State's airfare contracts were not utilized, the university did take advantage of savings offered through the Alaska Airlines EasyBiz program. In FY 15, the university redeemed 3.6 million EasyBiz miles for 234 tickets. Using the EasyBiz program reduced UA airfare costs; however, internal controls over EasyBiz mileage need improvement to ensure the efficient and authorized use of miles.

The audit found UA's travel scheduling and purchasing processes are decentralized with no single system used by all departments. The system-wide use of a travel booking tool and a single university credit card account would improve efficiency, transparency, and reduce costs.

In FY 15, UA implemented a new electronic travel and expense management system. Despite its benefits, several University of Alaska Fairbanks (UAF) departments opted out of using the new system and did not realize the improved efficiency and transparency provided by the system.

# Report Highlights

## REPORT CONCLUSIONS (Continued)

The audit identifies four opportunities to reduce costs. First, purchasing airfares 14 days in advance would allow travelers to take advantage of the best rates available. Second, requesting the government lodging rate would have reduced UA's lodging expenses by an estimated \$44,000 in FY 15. Third, denying reimbursement of avoidable lodging taxes would have saved approximately \$167,000. Finally, using campus lodging in the summer months would reduce lodging costs. In the transactions tested, using campus lodging during summer months could have reduced lodging costs by \$24,000 in FY 15. To be effective, travel policy changes recommended by this audit should be codified in the university's travel regulations.

The audit found improvements were needed in the review of travel transactions. Testing of 140 travel transactions processed in FY 15 found 23 instances of noncompliance with UA regulations. The errors affected transportation, lodging, and per diem, resulting in incorrect calculations or reimbursements, inadequate approvals, and lack of documentation.

# ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P.O. Box 113300  
Juneau, AK 99811-3300  
(907) 465-3830  
FAX (907) 465-2347  
legaudit@akleg.gov

June 12, 2016

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

UNIVERSITY OF ALASKA  
TRAVEL

March 11, 2016

Audit Control Number  
45-30086-16

This audit reports travel expenditures, identifies opportunities for savings and improved efficiencies, provides recommendations to reduce the university's travel expenditures, and provides a status of prior travel audit recommendations.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork procedures utilized in the course of developing the findings and recommendations presented in this report are discussed in the Objectives, Scope, and Methodology.

A handwritten signature in black ink, appearing to read "Kris Curtis".

Kris Curtis, CPA, CISA  
Legislative Auditor

## ABBREVIATIONS

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ACN	Audit Control Number
AFB	Air Force Base
AS	Alaska Statute
board	Board of Regents
CFO	Chief Financial Officer
CISA	Certified Information Systems Auditor
CPA	Certified Public Accountant
D.C.	District of Columbia
DLA	Division of Legislative Audit
FY	Fiscal Year
GSA	General Services Administration
ID	Identification Numbers
KPC	Kenai Peninsula College
SW	Statewide System Office
TA	Travel Authorization
TEM	Travel and Expense Management System
TER	Travel Expense Report
UA	University of Alaska
UAA	University of Alaska Anchorage
UAF	University of Alaska Fairbanks
UAS	University of Alaska Southeast
U.S.	United States

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# ORGANIZATION AND FUNCTION

## University of Alaska (UA)

UA was established by the Alaska Constitution, Article VII, Section 2, and by AS 14.40 as the state university. An 11-member Board of Regents (board), appointed by the governor, serves as its governing body. The board, by a majority vote, appoints the UA president. The president is responsible for the efficient operation and management of the university.

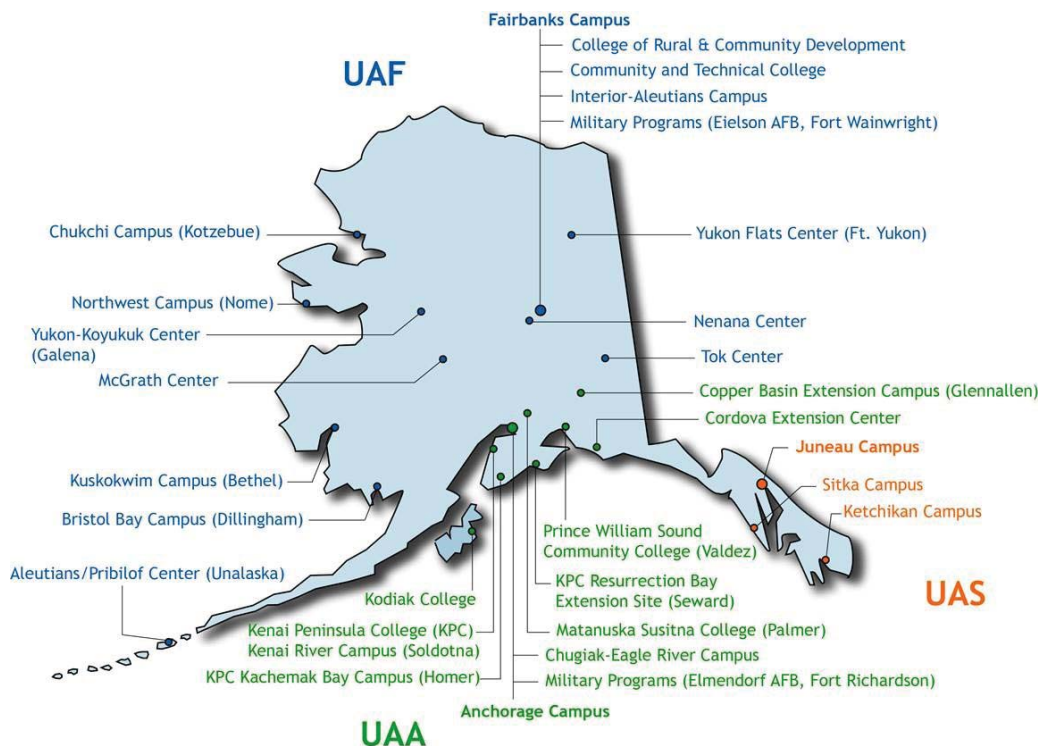
UA's mission is to inspire learning; to advance and disseminate knowledge through teaching, researching, and public service; and to emphasize the North and its diverse peoples. System-wide, nearly 31,500 full-time and part-time students are enrolled and participating in one or more of the 500 unique degree, certificate, or endorsement programs. Approximately 8,000 regular and temporary employees provide instruction to students or support for the university.

The three main campuses – University of Alaska Fairbanks (UAF), University of Alaska Anchorage (UAA), and University of Alaska Southeast (UAS) – are separately accredited institutions. A chancellor at

each campus oversees the campus operations and reports to the president. Exhibit 1 shows the location of the main and extended university campuses. The statewide system office, located in Fairbanks, provides coordination among campuses, support to the board, and overall administrative management for the university.

### Exhibit 1

Map of Main and Extended University Campuses



Source: UA Institutional Resources and Analysis staff.

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## BACKGROUND INFORMATION

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### **University of Alaska’s (UA) board and president develop and approve travel rules.**

The board adopts broad and flexible policies governing UA’s operations. In accordance with the powers granted by AS 14.40.210(a)(3) and Board Policy (P) 01.03.020, the UA president develops regulations (R) necessary to implement board policies. The university’s travel policies and regulations are established in P05.02.06 and R05.02.06, respectively. All campuses are required to follow these policies and regulations; however, each campus may issue additional travel guidelines to interpret regulations.

### **UA’s travel process involves several individuals with distinctive roles.**

The university’s travel process is decentralized to the department level and typically involves several individuals. The process starts with a traveler or their delegate (administrative or office assistant) planning the travel itinerary and documenting the itinerary in a travel authorization (TA) report. The TA includes business purpose, travel dates, mode of travel, and estimated travel costs. A supervisor reviews and approves the TA, and administrative or delegated personnel encumbers<sup>1</sup> the expected expenditures. Upon approval and encumbrance, the traveler or their delegate purchases tickets and enters into financial commitments.

Upon return from a trip, the traveler completes a travel expense report (TER), which documents actual expenditures and dates associated with the authorized travel. A supervisor and a travel auditor reviews the TER and approves reimbursement. Travel auditors are part of the accounts payable function at each campus and the statewide system office.

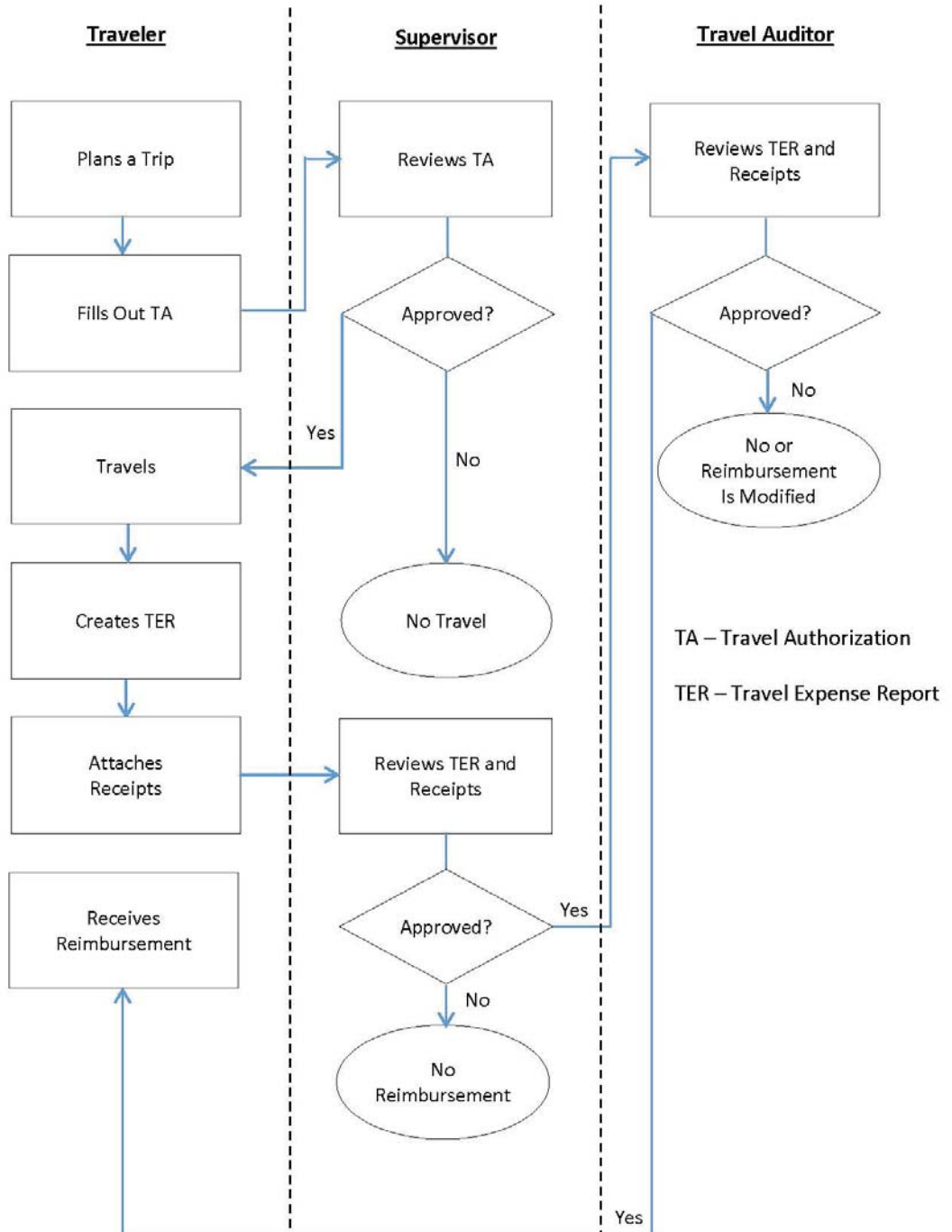
A diagram of UA’s travel process is shown in Exhibit 2 on page 4.

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<sup>1</sup>Encumbrances are financial commitments which reserve funds for planned obligations that have not yet been legally incurred.

Exhibit 2

University of Alaska Travel Process



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**The university uses both automated and paper processes to record travel.**

Before FY 15, university travel was administered using a paper process. Manually created paper-based travel documents were signed by appropriate individuals and used to input information into UA's accounting system. Travel receipts were physically attached to TERs to support the recorded expenditures.

In FY 15, the university automated some travel processes by implementing a travel and expense management system (TEM). TEM is an off-the-shelf web-based application used to manage travel expenditure activity. The university uses TEM to encumber travel, process travel expense reports, and post transactions into the accounting system. TEM is only used for UA employees and students with existing university identification numbers (IDs). Travel for individuals (e.g. contractors and grantees) without UA IDs continues to be processed using the paper-based method.

TEM was in development for approximately two years before it was put into operation in FY 15. Per management, UA spent \$117,788 on TEM in contract fees since its acquisition in FY 13. The university also paid wages and benefits for staff to implement TEM; however, the amount could not be reasonably estimated.

Just after a year and a half of operation, the system is being considered for replacement. In December 2015, university management issued a memo stating that the software company that owns TEM was planning to discontinue software support. As a result, management is pursuing solutions to replace TEM, and as of March 2016, no replacement decision has been made. The university will continue to use TEM as long as UA programmers can maintain it without software updates.

**Three university-issued credit cards are used to pay for travel expenditures.**

UA issues three types of credit cards to employees: departmental, procurement, and travel. Department and procurement cards are linked to corporate accounts, with credit card statements sent to and processed by the university. Department cards are used to purchase airline tickets and procurement cards are used to procure goods during travel. These cards are eligible for rebates from the credit card vendor.

In contrast to department and procurement cards, travel cards are credit cards issued to individuals and are similar to a personal credit

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card. Cardholders receive credit card statements and are responsible for paying the balances. However, UA is ultimately liable in the event an employee does not pay the balance. Travel cards are used to pay for lodging, car rentals, and per diem. The university reimburses employees for incurred expenditures based on the submitted receipts. Travel cards are not eligible for rebates by the credit card vendor.

In addition to the university-issued credit cards, travelers are allowed to use their own personal credit cards to pay for travel-related expenditures and claim reimbursement by submitting receipts.

## **UA does not use a booking tool to manage travel.**

A travel booking tool is an application, usually accessible online, used by organizations to manage business travel. In addition to making travel reservations, travel booking tools typically allow management to view real-time data on their business travel expenditures and enforce travel policies. Booking tools are offered by multiple vendors and vary in functionality. In a typical booking tool, all components of a trip are scheduled on a central site with access to global vendors and contracted rates which helps increase efficiencies.

Currently, the university is not using a booking tool to manage its travel. In 2005, the State of Alaska started using a booking tool to manage and reduce state travel costs. The booking tool is continuously updated to meet the State's travel needs and enables travel planners and travelers to create policy-compliant air, car, and hotel reservations. Additionally, the State's booking tool allows access to the State's negotiated travel contract rates. Prior to using a booking tool, most state departments used the same EasyBiz program the university utilizes, as described in Exhibit 3.

### **Exhibit 3**

#### **UA's EasyBiz Program**

The university uses Alaska Airlines EasyBiz program. EasyBiz offers an online portal for corporate clients to book and purchase airfares. The benefits of EasyBiz include:

- Travel management tools to expedite the purchase process including the ability to create traveler profiles.
- Earning one mileage plan mile for every dollar spent on a fare, which allows the university to acquire free tickets using the earned mileage.
- A 24-hour reservation hold before paying.
- The ability to print ticket reports.
- A price guarantee that allows a traveler to find lower priced airfare for the same itinerary and receive a refund from Alaska Airlines for the difference upon completing a request for reimbursement form with the applicable documentation.

Source: Alaska Airlines EasyBiz Website.

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# REPORT CONCLUSIONS

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An audit of the University of Alaska's (UA) travel procurement and procedures was requested to identify potential savings and efficiencies. The audit reports travel expenditures, identifies opportunities for reducing costs and improving efficiencies, provides recommendations to reduce the university's travel expenditures, and provides a status of prior travel audit recommendations.

The university's travel expenditures fluctuated between \$22.1 million in FY 12 and \$21.9 million in FY 14 with a significant decrease to \$18.6 million in FY 15. According to management, the number of trips was intentionally decreased in FY 15 to contain costs. Further savings could be realized if UA implements changes recommended in the audit.

A review of UA's procurement practices found UA did not leverage its buying power and did not take advantage of the State's contracts to achieve the best possible price for travel. Numerous State of Alaska contracts are available to the university that would help reduce travel costs. The audit estimates that the university could have reduced travel costs in FY 15 by \$257,000 in airfares and \$132,000 in car rentals if the State's contracts had been utilized. (See Recommendation 2).

Although the State's airfare contracts were not utilized, the university did take advantage of savings offered through the Alaska Airlines EasyBiz program. In FY 15, the university redeemed 3.6 million EasyBiz miles for 234 tickets. Using the EasyBiz program reduced UA airfare costs; however, internal controls over EasyBiz mileage need improvement. (See Recommendation 4).

The audit found UA's travel scheduling and purchasing processes are decentralized with no single system used by all departments. The system-wide use of a travel booking tool and a single university credit card account would improve efficiency, transparency, and reduce costs. (See Recommendations 3 and 6).

In FY 15, UA implemented a new electronic travel and expense management system (TEM). Despite its benefits, several University of Alaska Fairbanks (UAF) departments opted out of using the new

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system and did not realize the improved efficiency and transparency provided by the system. (See Recommendation 5).

The audit identifies four opportunities to reduce costs. First, purchasing airfares 14 days in advance would allow travelers to take advantage of the best rates available. Second, requesting the government lodging rate would have reduced UA's lodging expenses by an estimated \$44,000 in FY 15. Third, denying reimbursement of avoidable lodging taxes would have saved approximately \$167,000. Finally, using campus lodging in the summer months would reduce lodging costs. In the transactions tested, using campus lodging during summer months could have reduced lodging costs by \$24,000 in FY 15. To be effective, travel policy changes recommended by the audit should be codified in the university's travel regulations. (See Recommendation 7).

The audit found improvements were needed in the review of travel transactions. Testing of 140 travel transactions processed in FY 15 found 23 instances of noncompliance with UA regulations. The errors affected transportation, lodging, and per diem, resulting in incorrect calculations or reimbursements, inadequate approvals, and lack of documentation. (See Recommendation 8).

Detailed report conclusions are presented below.

**The university's travel expenditures decreased from \$21.9 million in FY 14 to \$18.6 million in FY 15.**

Exhibit 4 shows UA travel expenditures from FY 12 through FY 15 by fund (unrestricted and restricted) and travel destination. Typically, unrestricted funds are available for general use, while expending restricted funds is limited by grant, contractual, or other requirements.<sup>2</sup> The university's management has greater discretion in spending unrestricted funds.

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<sup>2</sup>Travel paid from capital funds comprised less than one percent of total travel expenditures for each fiscal year and was combined with the restricted fund category.

**Exhibit 4**

<b>University of Alaska Travel Expenditures by Fund and Travel Destination FY 12 – FY 15</b>				
	<b>FY 12</b>	<b>FY 13</b>	<b>FY 14</b>	<b>FY 15</b>
<b>Unrestricted Funds</b>				
In-State	\$ 3,730,198	\$ 3,957,697	\$ 3,932,950	\$ 2,463,423
Out-of-State	6,537,839	6,576,636	6,484,597	4,690,228
International	874,735	726,424	857,661	587,657
Recruitment	816,557	817,057	724,452	372,208
Non classifiable	0	712	167,490	1,240,505
Total Unrestricted	<u>11,959,329</u>	<u>12,078,526</u>	<u>12,167,150</u>	<u>9,354,021</u>
<b>Restricted and Capital Funds</b>				
In-State	4,931,215	5,110,227	4,691,567	3,944,675
Out-of-State	3,805,830	3,980,094	3,523,280	2,796,219
International	1,308,251	1,496,618	1,292,007	986,977
Recruitment	60,282	45,867	68,720	17,278
Non classifiable	0	3,211	199,407	1,508,524
Total Restricted and Capital	<u>10,105,578</u>	<u>10,636,017</u>	<u>9,774,981</u>	<u>9,253,673</u>
Total University Travel	<u>\$ 22,064,907</u>	<u>\$ 22,714,543</u>	<u>\$ 21,942,131</u>	<u>\$ 18,607,694</u>

Source: UA accounting system.

Overall, UA travel expenditures have decreased in the last four years from \$22.1 million in FY 12 to \$18.6 million in FY 15. Travel expenditures from unrestricted funds were relatively stable from FY 12 through FY 14 with a \$2.8 million decrease in FY 15. Management reported that the decrease in expenditures was primarily caused by a reduction in the number of trips taken. The UA president directed a system-wide reduction in travel expenditures in response to a decline in revenues. Travel expenditures from restricted funds decreased from \$10.1 million in FY 12 to \$9.3 million in FY 15.

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**In FY 15, UA did not use a single accounting structure to record travel, which impeded management’s ability to adequately manage travel expenditures.**

**UA did not leverage its buying power and did not take advantage of available contracts to achieve the best possible price for travel.**

Approximately \$2.7 million (15 percent) of FY 15 travel expenditures was not classifiable between in-state, out-of-state and international travel. The expenditures could not be classified because of changes to the university’s account structures as described below.

UA’s automation of travel processes resulted in a new accounting structure that coded travel expenditures by type (airfare, lodging, car rentals, etc.) rather than destination (in-state, U.S. travel, international, etc.). However, the new structure was not consistently implemented. The automated transactions mostly reported expenditures by type, while paper transactions continued to code expenditures by destination. In FY 15, 52 percent of travel expenditures were recorded using the new structure and 48 percent using the older structure. The lack of a single accounting structure impedes management’s ability to adequately manage travel expenditures because no comprehensive information is available by either type or destination. (See Recommendation 1.)

While a few university departments pursued contracts and cost savings for their specific travel, the statewide system office (SW) did not enter into system-wide contracts to obtain travel volume discounts. (Exhibit 5 provides an example of a cost saving measure by a department.) Additionally, the university did not take advantage of discounts available through State of Alaska contracts. UA management was not aware that state travel contracts were available to the university.

**Exhibit 5**

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**UAA Athletics Department Travel Cost Savings Measures**

UAA’s Athletic Department uses a travel management contractor to book athletic travel a year in advance and hold tickets at the most advantageous prices. The contractor does not charge for travel changes or cancellations.

Additionally, by being a member of the Great Northwest Athletic Conference, the department receives government rates at participating hotels and discounts on car rentals.

The Athletic Department also obtained sponsorships from Alaska Airlines and Avis to reduce airfare and car rental costs.

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Source: UAA Athletic Department staff.



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To secure advantageous pricing through the State's purchasing power, the State of Alaska entered into several centralized airfare, car rental, and lodging contracts. The airfare contracts are with Alaska Airlines, Delta Airlines, helicopter charters, and fixed wing passenger charters. The two car rental contracts cover in-state and out-of-state travel. The lodging prices are negotiated for the State by the travel contractor and the National Association of State Procurement Officials.<sup>3</sup> Except for the Alaska Airlines and specific lodging agreements, the State's travel contracts are readily available to UA at no additional cost.

In order for the university to gain access to the Alaska Airlines contract, airfare purchases must go through the State Travel Office using a single travel management contractor, and airfares must be purchased with a State of Alaska credit card. If UA used the State's booking tool to access Alaska Airlines negotiated rates, it would not be eligible to use the EasyBiz program and would not accrue the mileage. In addition to the loss of mileage, there are costs associated with using the Alaska Airlines contract; however, the benefits should outweigh these costs if air travel is adequately managed.

A cost analysis of using the State of Alaska's airfare contracts shows that UA could have potentially reduced airfare cost by approximately \$257,000<sup>4</sup> in FY 15. An additional projected savings of \$132,000<sup>5</sup> could have been achieved if the university used the State's car rental contracts during FY 15. (See Recommendation 2.)

**A travel booking tool could provide access to discounts and increase transparency of travel expenditures.**

A travel booking tool<sup>6</sup> with access to global vendors and contract rates could bring organizational efficiencies to the university travel process. In a typical booking tool, all components of a trip are scheduled on a central site and changes do not require contacting multiple individual vendors. Additionally, an online self-booking tool can reduce

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<sup>3</sup>The National Association of State Procurement Officials is a non-profit association dedicated to advancing public procurement.

<sup>4</sup>To calculate airfare savings, estimated FY 15 airfare expenditures were multiplied by the audited savings rate of 3.57 percent, calculated as a part of the *State Travel Office Audit, May 5, 2016*, Audit Control Number 08-30082-16.

<sup>5</sup>To calculate car rental savings, estimated FY 15 car rental expenditures adjusted for taxes, fees and gas reimbursements were multiplied by the calculated average savings percentage that would have resulted from the use of the State's car rental contracts determined through the testing of UA travel transactions.

<sup>6</sup>A travel booking tool is an application, usually accessible online, used by organizations to manage their business travel. See Background section for additional information.

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transaction costs. Furthermore, the tool can be configured to increase compliance with UA regulations and allows access to negotiated rates. A booking tool with access to global vendors and contract rates would allow the university to obtain discounts and bring more transparency to the travel process through improved reporting and monitoring capabilities.

Currently, booking travel at UA is a decentralized process typically done by travelers or their delegates. Travelers/delegates research airfare, hotel, and rental car prices by visiting online booking sites (e.g. Expedia) or individual vendor sites (e.g. Alaska Airlines). University management reported that scheduling travel takes substantial time because of the effort to find the most economical travel option available. In December 2015, UA management began evaluating the merits of using a travel booking tool.

The State of Alaska is using a travel booking tool administered by a travel contractor. The booking tool is available to the university, and UA travel could be added to the State's transaction volume. The State's booking tool would allow the university to access airfare and lodging discounts, as discussed in the prior conclusion. (See Recommendation 3.)

**EasyBiz accounts have provided savings to the university; however, strong internal controls over EasyBiz were not implemented and enforced by management.**

The redemption of earned EasyBiz<sup>7</sup> miles for free airfare tickets reduced airfare costs. In FY 15, UA redeemed 3.6 million miles for 234 tickets. Exhibit 6 summarizes the number of EasyBiz accounts, beginning and ending mileage balances, miles earned and used during FY 15, and the number of mileage tickets used.

Campuses varied in the number of the EasyBiz mileage accounts. UAF, the University of Alaska Anchorage (UAA), and the SW opened accounts for individual units and departments, which resulted in 90, 20, and 12 EasyBiz accounts, respectively, while the University of Alaska Southeast (UAS) opened only three accounts – one for the main campus and one for each extended campus.

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<sup>7</sup>EasyBiz is a mileage benefit plan offered by Alaska Airlines. See the Background section for additional information.

**Exhibit 6**

FY 15 EasyBiz Mileage Accounts by Campus (Unaudited)						
Campus	Number of Mileage Accounts	Beginning Mileage Balance	Earned Miles	Redeemed Miles	Ending Mileage Balance	Mileage Tickets Used
UAF	90	8,255,278	2,235,679	2,795,200	7,695,757	132
UAA	20	966,181	306,382	360,351	912,212	38
SW	12	930,470	197,311	209,975	917,806	51
UAS	3	642,912	356,776	256,500	743,188	13
<b>Total</b>	<b>125</b>	<b>10,794,841</b>	<b>3,096,148</b>	<b>3,622,026</b>	<b>10,268,963</b>	<b>234</b>

Source: UA staff.

Each campus reduced airfare costs by redeeming EasyBiz miles. Generally, miles were used for professional development, recruitment, and meetings. The most common mileage uses reported by campuses are summarized below.

- UAF: Each department utilized mileage for a wide variety of activities pertaining to goals, including attendance at meetings, conferences, trainings, and awards; as well as faculty and student recruitment.
- UAA: Mileage was generally used for recruitment, meetings, professional development, advocacy, and competitions.
- UAS: The Juneau campus used miles for student recruitment; the Sitka campus used miles for commencement honorees; and the Ketchikan campus used miles for faculty professional development.
- SW: The SW and Board of Regents used the majority of EasyBiz miles to attend in- and out-of-state meetings. The UA Foundation mostly used miles for marketing, meetings, and professional development, including travel to meet with staff and university representatives around the system, board of trustee meetings and training, and staff development.

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Although the EasyBiz program reduced travel costs, effective internal controls over EasyBiz miles were not implemented and enforced. In September 2014, UA's chief financial officer issued guidance to campuses proposing implementation of several internal controls over using and tracking EasyBiz information. Despite the guidance, a May 2015 UA internal audit report found that accountability processes were not conducted by all account administrators. The internal audit report recommended EasyBiz internal controls be included in UA's travel regulations, on the travel website, and in training documentation to improve the consistent use and tracking of Easy Biz mileage activity.

As of March 2016, no action has been taken by UA management to implement and enforce internal controls over EasyBiz mileage activity. According to UA management, internal controls over EasyBiz accounts and mileage were not implemented due to conflicting priorities. As a result, the management of EasyBiz accounts varied by UA campus and department. The inconsistencies could lead to the inefficient use of UA miles or the misuse of UA miles for personal or noncritical travel. (See Recommendation 4.)

**TEM improved the paper-based process; however, TEM was not implemented system-wide.**

TEM<sup>8</sup> offers several benefits that improved efficiency, consistency, and transparency of travel transactions.

- TEM eliminates a separate process for inputting encumbrance and expenditure information into UA's accounting system, which minimizes input errors and decreases transaction processing time.
- TEM provides a more accurate representation of available funds because funds are automatically encumbered at the time a travel authorization is approved.
- Due to built-in workflow, TEM provides for consistent application of the authorization process, which is harder to circumvent in the automated environment in comparison to the paper-based process. Audit testing of 95 transactions processed through TEM showed no errors in the approval and documentation process, while testing of paper transactions identified six errors out of 45 transactions.

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<sup>8</sup>TEM is an off-the-shelf web-based application used to manage travel expenditure activity. See the Background section for additional information.

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- TEM automatically populates per diem rates based on the travel destination, which saves input time and allows for consistent application of UA's per diem rules. Testing of transactions processed through TEM showed no errors in the calculation of per diem allowance, while testing of the paper transactions identified five errors.
  - TEM records expenditures in real time, which allows for more timely and transparent reporting.
  - As of June 2015, the software was enhanced by allowing university employees to upload all travel support into TEM, which improved efficiency of the travel review process.

Despite the benefits, several UAF departments are not using TEM because department management believes the system is not user-friendly and is being considered for replacement. Per SW management, these departments were given a "grace period" to implement TEM but were not given timelines, and compliance was not enforced. (See Recommendation 5.)

**The use of a corporate university credit card account to pay for travel transactions would increase credit card rebates, avoid unnecessary lodging tax payments, and decrease the risk of misusing UA-issued travel cards.**

When analyzing UA's travel purchasing procedures for organizational efficiencies, the audit found three opportunities for savings and improvements related to using university-issued travel cards and personal credit cards.

- **Increasing rebates:** UA does not earn rebates on university-issued travel cards and personal credit cards because the balances are paid directly by travelers. In contrast, UA received \$353,000 in credit card rebates on two corporate accounts (department and procurement credit cards) for FY 15. Rebates could be earned if the university-issued credit cards were combined into the central university credit card account and use of personal credit cards was discouraged.
- **Avoiding lodging taxes:** Hotel/lodging charges paid directly by the State are generally exempt from local taxes within Alaska. A direct form of government payment is required to qualify for the exemption. Use of personal credit cards is not considered a direct form of government payment. Consequently, UA routinely pays

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for avoidable lodging taxes because travelers are allowed to use personal credit cards for business travel expenses. Using a corporate university credit card would ensure that unnecessary hotel/lodging taxes are not paid.

- **Preventing credit card misuse:** While travelers are personally responsible for paying all purchases on university-issued travel credit cards,<sup>9</sup> UA is fully liable to the credit card vendor for the unpaid balance if cardholders fail to pay. Additionally, because credit card statements are sent directly to cardholders, there is no mechanism to ensure that cardholders are not misusing these credit cards for personal purchases. This setup exposes UA to a risk of an employee making a personal purchase on the university-issued credit card and leaving employment without paying the statement balance. The use of a corporate university credit card would ensure better control over the types of purchases made by cardholders.

At the time of the audit, UA management was discussing with the credit card vendor the possibility of combining the three university credit cards. (See Recommendation 6.)

## **Strengthening the university's travel regulations would help reduce travel costs.**

The audit identified four opportunities to contain travel costs based on the testing of randomly and judgmentally selected travel transactions. To reduce travel costs, the opportunities described below should be included in UA regulations. (See Recommendation 7.)

- Purchasing airfares 14 days in advance

Advance purchase of airfare would allow travelers to take advantage of the best rates available. A memo issued July 2008 by the UA controller regarding strategies to reduce travel costs states, "Conventional wisdom says to book airfare at least 14 days in advance." UA regulations have yet to be revised to incorporate the recommendation. Testing of 53 FY 15 airfare transactions (22 electronic and 31 paper) showed that 38 percent of airfares were purchased less than 14 days in advance (Exhibit 7).

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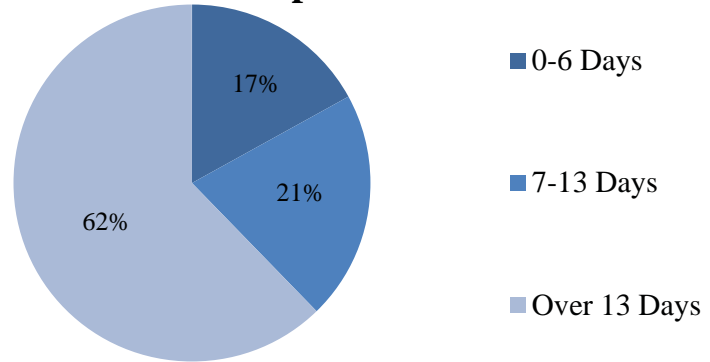
<sup>9</sup>University regulation R05.02.060.A.10.a.

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**Exhibit 7**

**UA Advance Airfare Purchase  
Sample Results**



Source: UA travel documents.

- Using campus lodging during summer months

Using university lodging during summer months represents an opportunity to reduce lodging costs. The July 2008 memo from the UA controller urged travelers to stay on campus during summer to avoid high hotel lodging rates. Despite this guidance, using campus lodging was not consistently considered by travelers. Testing of 57 FY 15 lodging transactions (25 electronic and 32 paper) identified eight summer trips where travelers visited locations with UA campus lodging. In seven of eight instances, travelers used commercial lodging rather than university lodging spending \$24,000 for commercial lodging.

- Requesting government lodging rates

Obtaining the lowest lodging rate available is a best practice for any state entity and the government rate is often the lowest option available. Testing of 57 lodging transactions showed that in 22 trips, UA paid an average of 20 percent above the government lodging rate.<sup>10</sup> Attaining the government lodging rate could have saved UA an

<sup>10</sup>The government lodging rate is set by the U.S. General Services Administration (GSA) based upon contractor-provided average daily rate data of local lodging properties. All rates are evaluated to ensure that they are fair and equitable in the GSA and U.S. Office of Management and Budget approval process.

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estimate of \$44,000<sup>11</sup> in FY 15.

- Denying reimbursement of lodging taxes paid by travelers for travel within Alaska

In Alaska, government entities are exempt from lodging taxes when a direct form of government payment is used. Testing of 25 electronic lodging transactions showed that UA reimbursed travelers for lodging taxes in 20 transactions. Seven of the 20 trips were in-state. These results show that UA could have saved an estimate of \$167,000<sup>12</sup> on in-state lodging taxes in FY 15 by paying for lodging with a direct form of government payment.

## Travel transaction testing identified instances of noncompliance with UA regulations.

A sample of 140 travel transactions<sup>13</sup> processed in FY 15 was reviewed for compliance with UA's regulations. Twenty-three instances of noncompliance were identified and classified by compliance area. Types of errors identified in each compliance area are described below:

- **Four transportation errors:** incorrect airfare and vehicle mileage reimbursement.
- **Three lodging errors:** no written justification for exceeding the standard lodging rate or paying for an extra room.
- **Four car rental errors:** no written approval or justification for renting a larger size vehicle and incorrect reimbursement for unallowable insurance expenditures.
- **Six per diem errors:** incorrect destinations and per diem rates.
- **Six approval and documentation errors:** include a wide range of issues such as a lack of adequate approval for a \$19,000 group

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<sup>11</sup>To calculate the government lodging rate savings, estimated FY 15 lodging expenditures adjusted for lodging taxes were multiplied by the calculated average savings percentage that would have resulted from requesting the government rate determined through the testing of UA travel transactions.

<sup>12</sup>To calculate the in-state lodging taxes cost savings, estimated FY 15 lodging expenditures were multiplied by the calculated percentage of avoidable in-state lodging taxes rate determined through the testing of UA travel transactions.

<sup>13</sup>Testing consisted of 123 random and 17 judgmentally transactions. Transactions were selected from five separate populations: electronic TER transactions of airfares, lodging, car rentals, per diem; and paper TER transactions.



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lodging expenditure and insufficient internal controls over travel paid from the agency (custodial) fund.

Appendix A includes the details of the compliance errors identified. (See Recommendation 8.)

**Prior UA travel audit findings were partially implemented.**

In FY 05, DLA conducted a performance audit of the university's travel.<sup>14</sup> The audit recommended UA's controller update, clarify, and enforce travel regulations to ensure that an adequate level of accountability was achieved. This audit identified that travel regulations were updated and internal memos were issued to address several areas identified as deficiencies. However, as documented in the conclusions, current year testing continued to identify instances of noncompliance. (See Recommendation 7.) Additionally, the audit determined that internal memos were not enforced and requirements described in the memos were more suitable for regulations. (See Recommendation 8.) A detailed summary of the status of prior recommendations can be found in Appendix B.

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<sup>14</sup>University of Alaska, *Unit Cost Analysis and Other Selected Issues, Part 2, November 15, 2005*. Audit Control Number 45-30033B-06.

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## FINDINGS AND RECOMMENDATIONS

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### **Recommendation 1: University of Alaska’s (UA) Chief Financial Officer (CFO) should implement a consistent system-wide accounting structure to record travel.**

The university used two sets of accounting structures in FY 15 to record travel. Approximately 52 percent of travel expenditures were coded by type (airfare, lodging, car rentals, etc.) while 48 percent were coded by destination (in-state, U.S. travel, international, etc.).

The inconsistent accounting of travel was caused by the implementation of a new accounting structure. The lack of a mandate by UA management that required consistent accounting contributed to the deficiency in cost accounting and reporting. UA management did not require the new automated travel system, travel and expense management system (TEM), to be implemented system-wide. Instead, TEM was partially implemented along with the new accounting structure. TEM uses an accounting structure that records and tracks travel by type of cost (airfare, lodging, car rentals, etc.) which is different than the paper-based transactions which coded travel by destination (in-state, U.S. travel, international) and purpose (recruitment).

Lack of a single accounting structure impedes management’s ability to control and report travel expenditures because no comprehensive information is available for either type or destination classifications.

*Codification of Governmental Accounting and Financial Reporting Standards, Section 1800.188 states:*

*The budget, the accounts, and the financial reports are inseparable elements in the financial administration process. Terminology and classification consistency among them is essential to achieving viable accounting systems and comparable, unambiguous financial reporting.*

We recommend UA’s CFO implement a consistent system-wide accounting structure to record travel.

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### **Recommendation 2: UA’s CFO should take full advantage of State of Alaska travel-related contracts to reduce travel costs.**

The university did not take advantage of the State of Alaska travel contracts established for use by all agencies, including the university. *Alaska Administrative Manual (AAM) 81.040* describes two primary goals for establishing State centralized contracts:

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*The first is to facilitate the procurement process, as you may purchase according to the terms of the contract without issuing bids, requesting quotations or seeking determinations for single source or limited competition. The second goal is to secure good pricing through the State's purchasing power.*

Taking advantage of the State's available contracts reduces travel costs which promotes efficient operations. Because UA did not take advantage of the State's central travel contracts, the university incurred unnecessary FY 15 travel costs estimated at \$257,000 for airfare and \$132,000 for car rentals.<sup>15</sup> UA management was unaware that the State's central contracts were available for use by the university.

University policy P02.01.010B states that the UA president is responsible for the efficient operations and management of the university, including finances. The president appoints all personnel, including the CFO, as necessary to efficiently carry out the purposes and programs of the university.

We recommend UA's CFO take full advantage of State of Alaska travel-related contracts to reduce travel costs.

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**Recommendation 3:  
UA's president should  
consider acquiring a  
booking tool to obtain  
discounts and improve  
management of travel.**

Travel scheduling is a decentralized process and no central tool is used by all university departments to book and plan travel. As a result, management lacks an effective reporting and monitoring tool to manage travel, and the university is losing out on lower prices made available through a central booking tool. A booking tool with access to global vendors and contract rates<sup>16</sup> would allow the university to obtain discounts and bring more transparency to the travel process through improved reporting and monitoring capabilities.

While campus representatives expressed a need for a booking tool, a tool has not been acquired due to statewide system office (SW) management's prioritization of implementing TEM. Representatives from campuses expected TEM to include booking tool capabilities;

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<sup>15</sup>Travel costs were calculated using estimated FY15 expenditures and savings rate calculations as described on page 11.

<sup>16</sup>The State of Alaska booking tool, if selected by UA management, would allow UA access to airfare, lodging, and car rental contract discounts.

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however, after TEM was rolled out they learned that the system included only accounting functions.

University policy P02.01.010B states that the UA president is responsible for the efficient operations and management of the university, including finances.

We recommend UA's president consider acquiring a booking tool to obtain discounts and improve management of travel.

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**Recommendation 4:  
UA's president should  
establish regulations  
to improve internal  
controls over EasyBiz  
accounts and mileage.**

System-wide controls have not been implemented and enforced over EasyBiz accounts and mileage. In September 2014, UA SW management issued EasyBiz internal control guidance via a memo to campuses. In May 2015, UA's internal audit reported noncompliance with the guidance and lack of accountability over EasyBiz accounts. As of March 2016, no system-wide controls for tracking and monitoring EasyBiz balances were developed.

University policy P05.02.060C requires *"each department or unit that uses a corporate travel program that accrues university mileage or ticket credits [to] conduct accountability processes in accordance with University Regulation."* Additionally, P01.03.020A states, *"The president shall promulgate regulations and amendments thereto, necessary or proper to implement or administer policies expressed in the Policy Manual."*

According to UA management, internal controls over EasyBiz accounts and mileage were not implemented due to conflicting priorities. As a result, management of EasyBiz accounts varied by UA campus and department. The inconsistencies could lead to the inefficient use of UA miles or the misuse of UA miles for personal or noncritical travel.

We recommend UA's president establish regulations to improve internal controls over EasyBiz accounts and mileage. Establishing the internal controls in regulation is an effective way to ensure uniform implementation throughout the UA system.

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**Recommendation 5:  
UA’s president should  
require TEM be  
implemented by all  
University of Alaska  
Fairbanks (UAF)  
departments.**

Several UAF departments did not implement TEM primarily because management believed the system was not user friendly and may be replaced in the future. Per SW management, these departments were given a “grace period” to implement TEM but were not given timelines, and compliance was not enforced.

By not using TEM, UAF departments miss out on the system’s benefits, such as improved efficiency, consistency, and transparency of travel transactions. Partial implementation of TEM has also led to inconsistent use of an accounting structure which limits informative reporting. University policy P02.01.010B states that the UA president is responsible for the efficient operations and management of the university, including finances.

We recommend UA’s president require TEM be implemented by all UAF departments.

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**Recommendation 6:  
UA’s president should  
consolidate the three  
UA-issued credit cards  
into a single corporate  
account and limit use of  
personal credit cards for  
travel.**

The majority of travel expenditures are paid via the three university-issued credit cards (corporate departmental, corporate procurement, and travel) or through travelers’ personal credit cards. The university receives and pays department and procurement credit card balances. The university-issued travel card is similar to a personal credit card. Travel cardholders receive monthly statements and are responsible for paying outstanding balances. However, UA is fully liable if cardholders do not pay credit card balances.

The use of university-issued travel cards and personal credit cards results in foregone credit card rebates, avoidable lodging tax payments,<sup>17</sup> and UA exposure to unnecessary risk of credit card misuse.

According to UA management, the different types of UA-issued credit cards were opened at different points in time to satisfy different needs. UA management was reportedly negotiating with the university’s credit card vendor to consolidate the three UA-issued credit cards. While personal credit cards are used for traveler’s convenience, representatives from every campus stated that some travelers use personal credit cards for business travel so that they can earn credit

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<sup>17</sup>A direct form of government payment is required to qualify for tax exemption.

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card points or airline miles for personal use. There is no mandate to use corporate cards although UA regulation R05.02.060.A.11.a encourages use of corporate credit cards for business expenses.

University policy P02.01.010B states that the UA president is responsible for the efficient operations and management of the university, including finances. Moving to a single corporate credit card account and limiting use of personal credit cards would increase the rebates received from UA's credit card company, allow UA travelers to claim the lodging tax exemption, and provide better control over use of UA-issued credit cards.

We recommend UA's president consolidate the three UA-issued credit cards into a single corporate account and limit use of personal credit cards for travel.

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## **Recommendation 7: UA's president should improve travel regulations to reduce travel costs.**

The review of 140 travel transactions identified four opportunities to reduce travel costs:

- **Purchasing airfares 14 days in advance when possible.** Testing showed 20 of 53 airfares (38 percent) were purchased less than 14 days in advance of travel. Advance airfare purchase was identified in a July 2008 memo from the UA controller as a strategy to reduce travel costs. However, it was not codified in regulations. Purchasing airfare at least 14 days in advance would allow travelers to take advantage of the best rates available.
- **Using campus lodging during summer months.** The audit identified seven transactions where using campus lodging would have reduced lodging costs. Similar to the advance airfare purchase, this cost containment opportunity was not required by regulation. The majority of campuses reported that travelers do not usually consider using campus lodging. For the seven transactions, lodging costs could have been reduced by \$24,000 in FY 15.
- **Requesting a government lodging rate.** Testing showed that for 22 of 57 trips (39 percent), UA paid an average of 20 percent above

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the government lodging rate.<sup>18</sup> Requesting the government rate is not a regulatory requirement. Paying the government lodging rate could have reduced UA lodging costs by an additional \$44,000 in FY 15.

- **Denying reimbursement of lodging taxes paid by travelers for travel within Alaska.** As a government entity, UA is exempt from paying lodging taxes for in-state and some out-of-state locations. However, testing showed that travelers routinely incurred avoidable lodging tax expenditures that were reimbursed by the university. Travelers were reimbursed because UA travel regulations do not prohibit the reimbursement. Not reimbursing travelers for the lodging taxes could have reduced expenditures by \$167,000 in FY 15.

To be effective, the opportunities to reduce travel costs as described above should be included in UA's regulations. University policy P05.02.060 establishes policies for travel expenses and P01.03.020A requires the president to promulgate regulations necessary to implement or administer the policies. Additionally, P02.01.010B states that the UA president is responsible for the efficient operations and management of the university, including finances.

We recommend UA's president improve travel regulations to reduce travel costs.

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**Recommendation 8:  
UA's CFO should work  
with each campus'  
management to improve  
the review of travel  
transactions.**

The review of 140 travel transactions processed in FY 15 identified 23 instances of noncompliance with UA travel regulations. The errors affected transportation, lodging, per diem, and approval and documentation of travel resulting in incorrect reimbursements for some transactions. Appendix A includes the details of the 23 compliance errors identified along with the criteria for each error.

According to regulation R05.02.06.A.1.a(1):

*Failure to comply with [UA travel] regulations by administrators, supervisors or travelers may result in the recipient being subject to income tax on travel reimbursements, billings and cost allocations being*

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<sup>18</sup>Hotels often offer lower rates for government employees (i.e. the government rate).



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*disallowed for direct and indirect cost purposes, and/or the university being subject to fines and penalties for failure to withhold taxes or properly account for travel costs.*

The errors were caused by lack of training, insufficient review by department management, and the high workload of travel auditors.

Because the errors are best corrected during review by travelers' supervisors and travel auditors, we recommended UA's CFO work with each campus' management to improve the review of travel transactions.

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# OBJECTIVES, SCOPE, AND METHODOLOGY

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In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the University of Alaska (UA) travel.

## Objectives

This audit evaluates travel procurement and procedures to identify potential savings and efficiencies. Specifically, the audit objectives include:

- Identify and report UA travel costs for the period FY 12 through FY 15 for in-state, out-of-state, and international travel.
- Evaluate UA travel procurement practices to determine whether UA is leveraging its buying power to achieve the best possible price for travel.
- Analyze UA procedures for scheduling and purchasing travel for organizational efficiencies and identify opportunities for reducing travel costs.
- Test a sample of UA airfare, lodging, car rental, and per diem transactions for reasonableness of travel costs and compliance with UA travel regulations.
- Determine the current status of prior travel audit recommendations conducted in FY 06.

## Scope

The audit reports on:

- UA travel expenditures for the period FY 12 through FY 15;
- UA's travel procurement practices in effect during FY 15;
- UA's travel scheduling and purchasing processes in effect during FY 15; and,
- Compliance and reasonableness of FY 15 UA's travel transactions including airfares, lodging, car rentals, and per diem.

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## Methodology

To address the objectives, the audit:

- Accessed UA's accounting system and database financial information, and retrieved travel expenditure information using electronic queries for FY 12 through FY 15. The data was validated by tracing a sample of transactions to the travel supporting documents to verify the reported dollar amounts, and by confirming totals with UA's controller. Additionally, the Single Audit reports issued by the certified public accounting firms KPMG and Moss Adams were reviewed for FY 12 through FY 15 to determine if there were any recommendations or changes in audit opinions that could have indicated lack of reliability of UA's financial records used in this audit.
- Inquired with UA's controller regarding year-end adjustments that may have materially affected travel expenditures in FY 12 through FY 15.
- Inquired with State's chief procurement officer, Department of Administration Division of Finance director, and State travel manager to gain an understanding of the State's travel-related contracts, credit card contracts, and the State Travel Office operations.
- Collected and summarized the EasyBiz account information from each campus and evaluated the design of EasyBiz internal controls. Obtained and reviewed UA's internal audit of EasyBiz accounts dated May 2015 to gain an understanding of internal controls over EasyBiz.
- Inquired with each main campus and Statewide personnel to gain an understanding of UA's travel scheduling and purchasing processes.
- Inquired with representatives from each main campus and Statewide office about the use of the travel and expense management system (TEM); reviewed TEM training and user materials; performed a TEM system walkthrough; and, accessed and used TEM during transaction testing.
- Reviewed information regarding the State of Alaska's travel booking tool administered by travel contractor, Corporate Travel Management, to gain an understanding of the use and process of the booking tool.

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- Reviewed UA's credit card contract with JP Morgan in effect during FY 15 and the related financial transactions to gain an understanding of credit card rebates received by UA.
  - Reviewed the municipal tax codes for Anchorage, Juneau, Fairbanks, and Washington, D.C. to gain an understanding of the applicable lodging tax exemptions for these areas.
  - From the list of FY 15 UA travel transactions, selected a sample of 140 electronic and paper transactions for internal control and compliance review, and opportunities to reduce travel costs: 123 selected randomly and 17 judgmentally. The transactions were selected from five populations: electronic airfare (20 random and 5 judgmental), electronic lodging (20 random and 5 judgmental), electronic car rentals (20 random and 2 judgmental), electronic per diem (20 random and 3 judgmental), and paper (43 random and 2 judgmental). Electronic transactions were processed through TEM. TEM (electronic) samples were based on low control and audit risk, and a moderate inherent risk. The paper sample was based on moderate control and inherent risk, and low audit risk. The results of testing were projected across the population for each random sample.

Requested from each main campus the documentation supporting travel transactions and evaluated the transactions for internal controls, compliance with applicable UA regulations, and for potential opportunities to reduce travel costs. The potential opportunities were researched by reviewing guidance issued by UA management, State of Alaska's *Alaska Administrative Manual* Section 60 Travel, and best business practices.

- Estimated the potential reduction in airfare costs by multiplying the estimated FY 15 UA's airfare expenditures by the State Travel Office audited savings rate of 3.57 percent.<sup>19</sup>
- Estimated a reduction in lodging costs that could result from requesting the government lodging rate and avoiding lodging taxes in Alaska by extrapolating the results of the lodging testing transactions to the estimated FY 15 UA's lodging expenditure

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<sup>19</sup>Department of Administration, State Travel Office, May 5, 2016, ACN 02-30082-16.

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population.

- Estimated the potential reduction in car rental costs by extrapolating the results of the car rental testing transactions to the estimated FY 15 UA's car rental expenditure population.
- Compliance errors and opportunities to reduce travel costs were discussed with representatives from each main campus and Statewide management.

To gain understanding of the status of the prior UA travel audit recommendations, we:

- Inquired with UA management regarding the status of the prior audit recommendations;
- Reviewed the internal documents regarding travel;
- Reviewed travel regulations; and
- Tested 140 travel transactions for the issues identified in the prior audit recommendation.

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# APPENDICES

## SUMMARY

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**Appendix A** provides a list of compliance errors identified during the testing of the University of Alaska’s (UA) travel transactions. A description and evaluation criteria is included for each error identified.

**Appendix B** provides the status of UA’s prior travel audit recommendations.

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# APPENDIX A

## Compliance Errors Identified in UA Travel Transactions

Number of Errors	Electronic or Paper	Payment Error	UA Regulation Criteria
<b>Transportation</b>			
1	Electronic	Traveler was reimbursed for vehicle mileage. No comparison schedule to commercial airfare was documented and reimbursement of airfare would have likely been more economical.	R05.02.060.A.4.c(2): <i>Reimbursement for vehicle transportation expense shall be limited to the lower of commercial airfare or the standard vehicle mileage rate allowable for IRS purposes.</i>
1	Electronic	No justification for reimbursing mileage for traveler's spouse.	R05.02.060.E.5.h: <i>Expenses incurred for spouses may be reimbursable, if there is a clear business purpose (rather than a social or personal purpose) or if it is impractical to exclude your spouse or the spouse of a business guest.</i>
1	Paper	Reimbursement to traveler was not reduced by the airfare cancellation fee incurred due to traveler's travel preferences.	R05.02.060.A.5.a(1): <i>Travel routing must be by the most direct route and efficient mode available. Any extra expenses resulting from travel by an indirect route or less efficient mode for the traveler's convenience will be borne by the traveler, and reimbursement will be based only on such charges as would have been incurred or reimbursed for traveling by the most direct route or efficient mode for business purposes.</i>
1	Paper	Two athletic team travelers were reimbursed at the higher personal deviation airfare.	R05.02.060.A.5.a(1): <i>Travel routing must be by the most direct route and efficient mode available. Any extra expenses resulting from travel by an indirect route or less efficient mode for the traveler's convenience will be borne by the traveler, and reimbursement will be based only on such charges as would have been incurred or reimbursed for traveling by the most direct route or efficient mode for business purposes.</i>
<b>Lodging</b>			
2	Electronic & Paper	No justification for exceeding the federal lodging rate by more than 1.5 times.	R05.02.060.A.3.c(2), <i>Reimbursement of actual costs for lodging in excess of 1.5 times the authorized per-diem rate requires a business justification.</i>
1	Electronic	No explanation for renting an extra room for one day of the athletic team travel.	R05.02.060.A.2.a(9), <i>Non-reimbursable expenses: [...] Subsistence expenses (including the incremental cost of additional lodging or room charges) for family members, travel companions and others not on authorized university business.</i>
<b>Car Rentals</b>			
3	Electronic	No business justification for renting a vehicle larger than standard size.	R05.02.060.A.4.d(2): <i>A standard sized car is to be rented or the business justification for a larger class vehicle must be attached to the expense report.</i>
1	Electronic	Unallowable reimbursement of rental car insurance.	R05.02.060.A.4.d(3): <i>The cost of vehicle insurance will not be paid or reimbursed to university employees for automobile rentals in the United States as the university self-insures this risk.</i>
<b>Per Diem</b>			
1	Electronic	Traveler was reimbursed for meals twice: hotel reimbursement included payment for a restaurant and daily per diem was paid at full rate.	R05.02.060.A.7.d: <i>If meal costs are reimbursed from other sources or reimbursed as representational expenses, the per-diem allowance shall be adjusted by reducing the daily meal and incidental expense allowance by one-fourth (1/4) for each meal provided or reimbursed by other means. Exceptions to these reductions must be justified in writing.</i>

# APPENDIX A

## (continued)

### Compliance Errors Identified in UA Travel Transactions (Continued)

Number of Errors	Electronic or Paper	Payment Error	UA Regulation Criteria
<b>Per Diem (Continued)</b>			
5	Paper	Per diem was paid for the incorrect destination. Also, per diem was not reduced by one-half for incomplete day of travel.	R05.02.060.A.2.c, <i>Per-diem is based on place of destination...</i>  R05.02.060.A.6.b(4), <i>The traveler shall be allowed one-half (1/2) of the basic meal and incidental expense allowance for each half-day period during which the traveler was on travel status.</i>
<b>Approval and Documentation</b>			
1	Paper	Lodging amount paid separately on a purchase order was not included on the TA and TER.	R05.02.060.A.1.b.2.h: <i>Travel Authorization Form (TA) - the official approval form for documentation of all estimated costs associated with a specific trip.</i>  R05.02.060.A.1.b.2.i: <i>Travel Expense Report (TER) - the official document used by the traveler and the department to approve actual travel costs and travel dates associated with an authorized trip.</i>
1	Paper	Transaction was paid from an agency fund. Travel review procedures do not apply to agency (custodial) funds: no TA and TER were created, and the travel auditor did not review the transaction.	R05.02.060.A.3.a(2): <i>Each traveler [...] must have the approval of his or her supervisor and the individual with authority to expend funds (often this will be the same person) documented on a Travel Authorization Form prior to commitment of university funds.</i>  R05.02.060.A.13.a: <i>A Travel Authorization Form must be completed, approved and dated by the appropriate individuals before any financial commitment of university resources is made and before travel begins, regardless of the method of payment (corporate travel card or personal funds) or the source of reimbursement (departmental funds, grants, or third party reimbursements).</i>
1	Paper	TER was not reviewed by a travel auditor, because it had not been forwarded to the Accounts Payable Department for review.	R05.02.060.A.14.a: <i>Travel expenses shall be reimbursed only upon completion of a Travel Expense Report that is approved by the individual requesting reimbursement and the supervisor or supervisor's designee, or otherwise approved by the travel administrator.</i>
1	Paper	Approval occurred over two months after travel and included incorrect destination and purpose of the trip.	R05.02.060.A.13.a: <i>A Travel Authorization Form must be completed, approved and dated by the appropriate individuals before any financial commitment of university resources is made and before travel begins...</i>  R05.02.060.A.3.a(1): <i>Requiring various approval levels is important to help safeguard against unnecessary travel and/or unreasonable costs.</i>
1	Paper	The receipts were converted to U.S. dollars using exchange rate for incorrect currency.	R05.02.060.A.14.a(5): <i>Foreign receipts must be itemized by type of expense in English. Currency exchange rates must be provided for transactions not converted to or reported in U.S. dollars by the vendor, charge card company, or bank. Currency exchange rates must be attached to the expense report when submitted.</i>
1	Paper	The \$19,000 in lodging was booked by one of the departments without approval by the Procurement Department.	R05.02.060.A.3.a(1): <i>Requiring various approval levels is important to help safeguard against unnecessary travel and/or unreasonable costs.</i>

# APPENDIX B

## Status of Prior University of Alaska Travel Audit Recommendations

The status of the prior audit recommendations is described as follows:

- **In Progress** – recommendation has been partially implemented;
- **Open** – recommendation remains unresolved; and,
- **Closed** – recommendation is no longer applicable.

Status of Prior University of Alaska Travel Audit Recommendations		
Status	Recommendation	Status Detail
<b>Closed</b>	No analysis on the travel authorization (TA) forms as to whether audio/video conferencing was considered.	There is no analysis on TA as to whether audio/video conferencing was considered. However, a memo issued by UA's president dated February 23, 2015, encouraged the "Use of OIT Video Conferencing and other types of video conferencing platforms [...] in lieu of travel." Recommendation is not reiterated as part of this audit.
<b>In Progress</b>	Accounting for the traveler's entire trip cost on the travel expense report (TER) is not always enforced.	Current year testing did not identify errors in TERs processed through an automated travel expense management system (TEM); however, there were errors in the paper TER. See current audit Recommendation 8.
<b>In Progress</b>	Travel regulations state that "travelers must utilize the most economical transportation available." However, UA provides no guidance as to whether an advance airfare (either 14 or 21 days) should be considered or required in certain circumstances.	A memo issued by the UA controller dated July 1, 2008 recommended purchasing airfare at least 14 days in advance. However, this requirement was not included in UA regulations. Testing showed that in 20 of 53 transactions (38 percent) airfare was purchased less than 14 days in advance. See current audit Recommendation 7.
<b>In Progress</b>	Travelers are incorporating personal time or side trips in UA business trips and there is no documentation to determine if any additional costs were incurred for the personal time or side trip.	UA regulation R05.02.060.A.5.a(1) requires travelers complete a cost comparison itinerary showing the most direct routes and efficient modes for the business purpose, when personal travel is mixed business. Current year testing identified two errors: in one case travelers were reimbursed at higher personal deviation rate and in another the cost comparison was not completed. See current audit Recommendation 8.
<b>In Progress</b>	The use of some purchase orders (POs) to secure lodging, airfares, and the like for travelers, no longer provide a costs savings to UA. Additionally, travel expenses paid by purchase orders and UA credit cards are often not captured on expense reports.	In FY 15, a small portion of UA expenditures was processed using POs. Per UA management, POs were used to secure advantageous group lodging rates, pay for charters when commercial airfare is not an option, and cover expenses of non-employees. Current year testing showed that use of POs to secure lodging resulted in savings due to waived lodging taxes. However, the testing also identified an instance when lodging expenses paid through a PO were not captured on the traveler's expense report. See current audit Recommendation 8.
<b>Open</b>	Some staff reviewing TERs are uninformed that they have the authority to hold travelers accountable to ensure UA travel policies and procedures are enforced but also are responsible for keeping an eye on controlling travel costs.	While UA staff responsible for transaction review are aware of their important role, they should continue working on enforcement of UA regulations to increase compliance. Current year testing identified 23 instances of noncompliance in 140 transactions tested. See current audit Recommendation 8.

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# Agency Response from the University of Alaska

James R. Johnsen, Ed.D.  
President  
Butrovich Bldg, Ste. 202, 910 Yukon Drive  
P.O. Box 755000, Fairbanks, AK 99775-5000  
Phone: (907) 450-8000; Fax: (907) 450-8012  
Email: ua.president@alaska.edu  
www.alaska.edu



September 20, 2016

Ms. Kris Curtis  
Legislative Auditor  
Division of Legislative Audit  
State of Alaska  
P.O. Box 113300  
Juneau, AK 99811-3300

RECEIVED  
SEP 20 2016  
LEGISLATIVE AUDIT

Re: Response to Preliminary Audit Report on University of Alaska Travel

Dear Ms. Curtis,

Thank you for your very thorough audit and recommendations for the University of Alaska's travel program as detailed in the report accompanying your August 18, 2016, letter. We strive for efficiency and cost effectiveness in our travel program while maintaining appropriate internal controls. The results of your audit will help us advance and strengthen those objectives.

As noted in your report, the year audited (FY15) was a transition year for our travel program, from paper to automation. Major improvements to our travel program are underway as further detailed in our responses to your recommendations. We continue to look forward to working with the State on the many facets of travel.

Now, at your request we provide responses to your conclusions and recommendations, as follows:

**Recommendation 1:** *UA's CFO should implement a consistent system-wide accounting structure to record travel.*

UA Response: We agree. UA certainly aims to have one system-wide accounting structure for travel, and historically has. However, during FY15 (the period audited) we were transitioning from a paper-based system to the electronic TEM system, and it was not feasible to use the same coding for the paper-based system as on TEM. When we complete transitioning to an electronic system, all travel transactions will be using the same accounting structure.

**Recommendation 2:** *UA's CFO should take full advantage of State of Alaska travel-related contracts to reduce travel costs.*

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**UA Response:** We agree. UA uses the EasyBiz program to reduce Alaska Airlines airfares. We understand that in order to utilize the State of Alaska negotiated airline contracts it is necessary to have a booking tool that serves as the “portal” to receive and apply the discounts. This, in part, is why we are writing a Request for Proposals (RFP) for a booking tool. UA management has discussed the various State-negotiated contracts with State of Alaska personnel, and are thankful for the opportunity to leverage the State of Alaska’s buying power.

**Recommendation 3:** *UA’s president should consider acquiring a booking tool to obtain discounts and improve management of travel.*

**UA Response:** We agree. UA has completed a needs assessment and is currently drafting an RFP that we plan to issue in September 2016. The RFP will be for a booking tool and an automated expense reporting tool (i.e. a replacement of TEM). UA will consider the booking tool used by the State of Alaska in its evaluation of the best value product. We expect that the decision on the booking tool will be before December 31, 2016.

**Recommendation 4:** *UA’s president should establish regulations to improve internal controls over EasyBiz accounts and mileage.*

**UA Response:** Implemented. This recommendation was implemented via Accounting and Administrative Manual procedure A-30: EasyBiz Controls that was promulgated on April 12, 2016. The procedure documents the internal control and reporting requirements for the EasyBiz program.

**Recommendation 5:** *UA’s president should require TEM be implemented by all UAF departments.*

**UA Response:** We agree and will continue to implement TEM at UAF departments where feasible. As you know, the TEM system has some limitations which is why it was not fully utilized and why the vendor is discontinuing support of the product. Further, knowing that we would be replacing TEM as soon as possible (FY17), decisions were made not to further invest in additional TEM functionality or allocate training resources as it may be counterproductive.

**Recommendation 6:** *UA’s president should consolidate the three UA-issued credit cards into a single corporate account and limit use of personal credit cards for travel.*

**UA Response:** We agree. The university began in FY16, prior to your audit, by increasing the use of the university-paid cards for lodging and car rental. These purchases were made primarily by administrative assistants on the traveler’s behalf, rather than the traveler. This increased rebates, saved lodging taxes, mitigated risk of travelers holding credit cards, and reduced traveler’s out-of-pocket costs. Our plan at this time is to phase out the use of personal credit cards, while phasing in corporate cards. We understand this will involve significant training so that the card is properly used. Travel regulations and business processes will be updated accordingly. In addition, we plan to synchronize this effort with the roll-out of a new expense management tool that has the functionality to automatically upload these transactions.

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**Recommendation 7:** *UA's president should improve travel regulations to reduce travel costs.*

UA Response: We agree. The four opportunities listed in your report are good rules to put in the regulations: 1) purchase airfare 14 days in advance, 2) use campus lodging in summer months, 3) request government lodging rate, and 4) deny reimbursement of lodging taxes paid by travelers for travel within Alaska.

**Recommendation 8:** *UA's CFO should work with each campus' management to improve review of travel transactions.*

UA Response: We agree. UA's CFO will work with each campus' management to improve the review of travel transactions. This is an ongoing effort in fiscal year 2017.

Please contact me with any questions. Thank you.

Sincerely,



James R. Johnsen  
President, University of Alaska

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