



MEMORANDUM

February 14, 2025

TO: Jim Watkins, Director
Financial Management Division

FROM: Kirk Marston, Chief Audit Executive
Program Integrity Division, Office of Audit Services

RE: Financial Management Division – Final Audit Report –
Travel Expense Reimbursement Audit (Assignment #2324.03)

In accordance with the *Government Code*, Section 13400 et seq. and State Administrative Manual, Section 20060, all levels of management must be involved in assessing and strengthening the systems of internal control to minimize fraud, errors, abuse, and waste of government funds.

The Office of Audit Services conducted an audit to determine whether reimbursements of travel expense claims complied with the state's travel expense regulations for the period of July 1, 2022, through June 30, 2023. Our report of this audit is attached.

We appreciate the cooperation and assistance of the Financial Management Division's management and staff during our audit. If you have any questions regarding this report, please contact me at (916) 954-3498 or Kirk.Marston@covered.ca.gov.

cc: Executive Office

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REVIEW OF ADMINISTRATION OVER TRAVEL EXPENSE REIMBURSEMENT PROCESS

COVERED CALIFORNIA
FINANCIAL MANAGEMENT DIVISION

FINAL AUDIT REPORT

ISSUED ON:
FEBRUARY 14, 2025

PREPARED BY:
COVERED CALIFORNIA
PROGRAM INTEGRITY DIVISION
OFFICE OF AUDIT SERVICES

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TABLE OF CONTENTS

Executive Summary	1
Background, Objective, Scope, and Methodology.....	2
Background	2
Objective.....	2
Scope	2
Methodology	2
Results	3
Positive Observations	3
Finding & Recommendation	4
Management Response	6
Evaluation of Response	7
Appendix A.....	8
Finding Ratings.....	8
Rating Definitions.....	8

EXECUTIVE SUMMARY

Objective and Scope

The Office of Audit Services conducted an audit to determine whether reimbursements of travel expense claims (TECs) complied with the state's travel expense regulations for the period of July 1, 2022, through June 30, 2023.

Positive Observations

- The Financial Management Division (FMD) accurately calculated the TEC reimbursement amounts for all employees.
- FMD thoroughly validated all travel details (e.g., dates, locations) on the TECs against the corresponding travel receipts.
- FMD completed the TEC validation process in a timely manner, ensuring prompt reimbursement for employees and enhancing customer service.
- FMD issued travel guidance to all employees mandating the usage of the Statewide Travel Program for all official business travel, which ensures that airfares and other travel arrangements are transparent, efficient, and booked at the most economical rate.

Reportable Conditions

We noted the following matter below that we consider to be reportable under the *International Standards for the Professional Practice of Internal Auditing*:

- **Travel expenses were approved for reimbursement after the business trips had already occurred**

Follow-up

The Office of Audit Services will follow up with management on their progress of corrective action plans and will report updates accordingly to the Audit Committee. A follow-up audit may be performed to determine the completion and adequacy of the corrective action plans.

BACKGROUND, OBJECTIVE, SCOPE, AND METHODOLOGY

Background

State employees who travel on official state business are reimbursed for authorized expenses incurred while traveling. The Travel and Disbursements Unit within Covered California's Financial Management Division (FMD) develops and maintains the department's travel policy and is responsible for the administration of travel expense claim (TEC) reimbursements.

California Automated Travel Expense Reimbursement System (CalATERS) is the statewide travel reimbursement system that employees, managers, and FMD utilize to process TECs. The system is administered by the California Department of Human Resources (CalHR), the California Department of General Services (DGS), and the State Controller's Office (SCO).

To be reimbursed for travel expenses, an employee must provide all travel details and obtain approval from their manager before commencing their trip. Certain travel expenses, such as hotel costs that exceed the authorized state rate, require additional forms to be completed by the employee and approved by the manager before departure. Once the employee returns from their trip, they are required to submit supporting documentation and travel details on a TEC in CalATERS. The employee's manager reviews the submitted documentation for accuracy and compliance with the state's travel expense regulations. Once approved by the manager, the TEC is sent to FMD for validation. Once validated, FMD forwards the TEC to SCO for payment.

Objective

The objective of this audit was to obtain reasonable assurance that reimbursements of TECs complied with the state's travel expense regulations.

Scope

The scope of this audit covered TECs that were processed during the scope period of July 1, 2022, through June 30, 2023.

Methodology

Our evaluation included gaining an understanding of FMD's policies and procedures and administration over travel expense reimbursements. Additionally, we conducted verification processes to ascertain if FMD's internal controls and resources were effectively and efficiently facilitating the administration of travel expense reimbursements to be in compliance with the state's travel expense regulations.

RESULTS

Positive Observations

In the course of our review, we evaluated various aspects of FMD's administration over travel expense reimbursements. We were able to ascertain, with reasonable assurance, the following areas where internal controls have been strengthened or were found to be effective and operating as intended:

- FMD accurately calculated the TEC reimbursement amounts for all employees.
- FMD thoroughly validated all travel details (e.g., dates, locations) on the TECs against the corresponding travel receipts.
- FMD completed the TEC validation process in a timely manner, ensuring prompt reimbursement for employees and enhancing customer service.
- FMD issued travel guidance to all employees mandating the usage of the Statewide Travel Program for all official business travel, which ensures that airfares and other travel arrangements are transparent, efficient, and booked at the most economical rate.

Finding & Recommendation

Finding # 1 – Travel expenses were approved for reimbursement after the business trips had already occurred

Finding Rating:	Priority	High	Medium	Low
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Condition

Eight TECs included certain travel expenses that should have been approved by the designated travel approvers (i.e., employees' managers) before the employees departed for their trips. Instead, these expenses were approved by the designated travel approvers and submitted to FMD for reimbursement after the trips had already occurred. Specifically:

- Five TECs included expenses for oversized vehicles, but the oversized vehicle rental requests were not approved until after the employees returned. This resulted in a total of \$411 in unapproved expenses.
- Two TECs did not have prior approval for attending an external training. This resulted in a total of \$769.68 in unapproved expenses.
- One TEC did not have approval for a hotel that exceeded the state rate. This resulted in a total of \$23 in unapproved expenses.
 - This discrepancy was identified by FMD, and the traveler later reimbursed this amount.

Criteria

DGS' *State Administrative Manual, Section 4117.2 – Commercial Car Rentals*, describes oversized vehicles as "Vehicles classified to be larger than intermediate sized vehicles" and states, in part: "State employees shall complete the Short-Term Vehicle Justification DGS OFAM 100 and submit to the department travel/accounting office/unit before making the rental reservation... All oversized vehicle rental requests must be approved in advance of travel dates."

DGS' *State Administrative Manual, Section 0724 – Conventions, Conferences, or Business Meetings*, states, in part: "Registration fees for conferences/conventions are payable if the employee has prior approval to attend."

CalHR's *Human Resources Manual, Section 2201 – Travel and Relocation Policy*, states, in part: "Typically, if the base (nightly) room rate exceeds the current state rate, then an Excess Lodging Rate Approval Request (STD 255C) must be submitted by the employee and approved by the employee's department and, if required, by CalHR, before the trip takes place."

Cause

Not all designated travel approvers appear to be aware of their responsibilities to scrutinize and approve all travel expenses prior to employees conducting business travel.

Effect

By not having designated travel approvers properly approve travel expenses before a trip occurs, there is a risk of:

- Wasted funds (e.g., the state reimburses an employee for an expensive hotel when the employee could have procured a less expensive hotel).
- Employees being billed for incurred expenses that would have been reimbursed had they obtained approvals in advance of travel.
- SCO determining that Covered California does not have effective internal controls to ensure TECs are legal, proper, and in accordance with the state's travel expense regulations.

Recommendation

FMD management should:

- Work with Covered California University to establish required training for designated travel approvers.
- Implement a process to deny reimbursement for travel expenses that lack proper prior approvals, referencing pre-distributed travel letters and state policy as delineated in the State Administrative Manual, as the basis for denying unallowable expenses.

MANAGEMENT RESPONSE

Presented below is our recommendation and Financial Management Division's response to the finding which includes their corrective action plan.

Finding 1:	<i>Travel expenses were approved for reimbursement after the business trips had already occurred</i>
Recommendation:	<p>FMD management should:</p> <ul style="list-style-type: none"> • Work with Covered California University to establish required training for designated travel approvers. • Implement a process to deny reimbursement for travel expenses that lack proper prior approvals, referencing pre-distributed travel letters and state policy as delineated in the State Administrative Manual, as the basis for denying unallowable expenses.
FMD Response:	<p>FMD agrees with the audit recommendations and has proactively strengthened internal controls over the travel program. Prior to the audit's conclusion, FMD recognized the need for manager training and began development in December 2024. Additionally, FMD continues to coordinate mandatory travel training for all staff, issue travel letters detailing rule changes and updates, and address travel-related concerns through the newly established Procurement, Accounting, Travel, and Handling of Funds (PATH) forum to ensure compliance and to provide a platform to address traveler questions and concerns.</p> <p>FMD also issued travel letter 24-010 on February 06, 2024, to provide the process for denying reimbursement. Travel letter 24-010 reminds travelers of the need to obtain written prior approval and submit required additional forms in adherence with the State Administrative Manual (SAM) and state rules and regulations or risk having the expenses denied for reimbursement.</p>
Targeted Completion Date:	June 30, 2025

EVALUATION OF RESPONSE

The corrective action plan provided by the Financial Management Division, if implemented as intended, should be sufficient to correct the reportable condition noted. The Office of Audit Services will conduct quarterly follow-ups to provide reasonable assurance that the corrective action plans have been implemented and are operating as designed. Additionally, a follow-up audit may be performed to determine the completion and adequacy of the correction action plan.

We sincerely thank the Financial Management Division for their help and cooperation during this audit.

APPENDIX A

Finding Ratings

Finding	Priority	High	Medium	Low
1. Travel expenses were approved for reimbursement after the business trips had already occurred				

Rating Definitions

Priority	<p>Immediate and on-going threat to the achievement of division or Covered California strategic goals and objectives. In particular:</p> <ul style="list-style-type: none"> - Significant adverse impact on reputation - Non-compliance with statutory requirements - Potential or known financial losses - Substantially raising the likelihood that risks will occur <p>Management must implement corrective actions as soon as possible and monitor the effectiveness.</p>
High	<p>High probability of adverse effects to the division or Covered California as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions.</p> <ul style="list-style-type: none"> - High potential for adverse impact on reputation - Increase in the possibility of financial losses - Increase in the likelihood that risks may occur
Medium	<p>Medium probability of adverse effects to the division or Covered California as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions.</p> <ul style="list-style-type: none"> - Medium potential for adverse impact on reputation - Potential increase in the likelihood that risks may occur
Low	<p>Low probability of adverse effects to the division or Covered California as a whole, but that represent an opportunity for improving the efficiency of existing processes. Correcting this will improve the efficiency and/or effectiveness of the internal control system and further reduce the likelihood that risks may occur.</p>