**UC** **RIVERSIDE: AUDIT & ADVISORY SERVICES**

Date: January 30, 2024

To: Veronica Ruiz, Chief Financial & Administrative Officer

 Chancellor’s Office – General Operations

Subject: G-45 Chancellor’s Expenses Systemwide Audit

Ref: R2023-01

We have completed the G-45 Chancellor’s Expenses Systemwide audit in accordance with the University of California, Riverside (UCR) Audit Plan. Our report is attached for your review.

We will perform audit follow-up procedures in the future to review the status of management actions. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2023-01 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by you and your staff. Should you have any questions concerning the report, please do not hesitate to contact me.

 Gregory Moore

 Director

cc: Ethics & Compliance Risk and Audit Controls (ECRAC) Committee

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

AUDIT REPORT R2023-01

G-45 CHANCELLOR’S EXPENSES

January 30, 2024

 Approved by:

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Ricardo Pardo Gregory Moore

Associate Auditor Director

**UC RIVERSIDE**

**G-45 CHANCELLOR’S EXPENSES**

**AUDIT REPORT R2023-01**

**January 30, 2024**

1. **MANAGEMENT SUMMARY**

Based upon the results of our review, it is our opinion that, overall, the expenses incurred by the Chancellor do not represent additional elements of compensation, are in compliance with applicable University policies and procedures, and are appropriate. However, we observed some areas noted below that need enhancement to strengthen internal controls and/or effect compliance with University policies and procedures:

1. Observation III.A – Full Accounting Unit (FAU) Classification
2. Observation III.B – Annual Report of Fiscal Year Expense of the President/Chancellor
3. Observation III.C – Invoice Documentation Retention

These items are discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

1. **INTRODUCTION**

1. **PURPOSE**

UC Riverside Audit & Advisory Services (A&AS), as part of a systemwide effort, performed a review of the UCR Chancellor’s expenses to ensure that the expenditures did not represent elements of compensation, and to determine appropriateness and general compliance with applicable University policies and procedures.

1. **BACKGROUND**

In recognition of the unique roles of the President and Chancellors (Executive Officers) in representing the University, the Regents of the University of California require Executive Officers, as a condition of their employment, to live in residences suitable for carrying out their roles and required official duties. As part of their official duties, Executive Officers are responsible for extending official hospitality to important visitors and guests in conjunction with official functions (i.e. campus activities, alumni and development events, etc.). The UCR Chancellor lives in such a University-owned residence.

1. **SCOPE**

A&AS reviewed selected records supporting the Chancellor’s expenses for fiscal year (FY) 2021-2022 and performed the following procedures:

* Performed review procedures and tests of accounting records of the Chancellor’s expenses to determine if the expenditures represented elements of compensation, and for appropriateness and general compliance with University Policy Business Finance Bulletin (BFB) G-45 “Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors”, UC Regents Policy 7708 “University-Provided Housing,” and adequacy of internal controls.
* Performed a financial analytic review/trend analysis of the Chancellor’s expenditures for FYs 2019-2020 through 2021-2022. This included identifying unusual trends or fluctuations and evaluating the reasonableness of any variances.
* Reviewed the UCR Annual Report of Fiscal Year Expenses of the Chancellor for FY 2021-2022 and evaluated the timeliness of preparation and submission, reasonableness of reported amounts, and compliance with University policy G-45.
1. **INTERNAL CONTROLS AND COMPLIANCE**

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

* Effectiveness and efficiency of operations
* Reliability of financial reporting
* Compliance with applicable laws and regulations

Substantive audit procedures were performed during the months of September 2022 through June 2023. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

1. **OBSERVATIONS, COMMENTS, AND MANAGEMENT CORRECTIVE ACTION**
2. **Full Accounting Unit (FAU) Classification**

**Criteria:**  In accordance with UC Policy BFB G-45 – Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors, expenses charged to the grounds maintenance expense account relate to the maintenance of the grounds associated with the University-provided housing. Such expenses may include but are not limited to:

* Landscaping and maintenance of plants,
* Tree trimming, pruning, and removal,
* Salaries and benefits of grounds maintenance staff, and
* Pool maintenance, if applicable.

**Condition:** During our testing of 28 sampled expense transactions, we identified two expense transactions for pool maintenance services that were not charged to the appropriate expense account. These expense transactions were erroneously charged to the general maintenance expense account in lieu of the grounds maintenance expense account as required by policy.

UCR implemented a new financial system in July 2023. The implementation also included a new common chart of accounts.

**Management Corrective Action Plan:** The responsibilities for management of the residence were previously split between Facilities Services (who manages the residence grounds and associated expenses) and the Chancellor’s Office (who coordinates event activities at the residence and associated expenses) as well as liaisons with Facilities Services. Therefore, Chancellor’s residence expenses were previously managed by two separate financial teams as well as accountability structures. Given this added complexity, a decision was made in June of 2022 at the end of FY23 to move A01307 (Executive Housing: Chancellor’s Residence), which was previously within Facilities Services (ORG 30) accountability structure, to be directly within the Chancellor’s (ORG 20) accountability structure. This decision was made to support strengthening internal controls around reconciliation of expenses and to ensure that they are within the correct account code and flex field tracking code to align with the reporting requirements on Chancellor’s Residence. Additionally, the Chancellor’s Office coordinates regular meetings between Facilities Services and Chancellor’s Office staff to discuss and collaborate on activities at the Chancellor’s residence. The financial analyst responsible for managing the expenses of the Chancellor’s residence has been appropriately trained to ensure expenses are categorized appropriately and within policy.

The accountability change was completed in FY23 prior to Impact 23 financial system implementation. This change is reflected in the golden trees at https://gtv.ucr.edu/home under Org 20, Div 136, D01124.

**Expected Implementation Date:** Implemented.

1. **Annual Report of Fiscal Year Expenses of the President/Chancellor**

**Criteria:** In accordance with UC Policy BFB G-45 – Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors, at the conclusion of each fiscal year, each location shall prepare an Annual Report of Expenses of the President/Chancellor (Appendix A) identifying the total expenses incurred by the Officer under Sections II.A. through II.N. of these Standards. This report must be submitted to the location accounting office by September 1st of each year.

A copy of the report must be sent by the Controller to the Office of the President, pursuant to the due date announced by the Executive Vice President—Chief Financial Officer.

**Condition:** During our audit procedures, we noted the FY2021-2022 Annual Report of Fiscal Year Expenses of the President/Chancellor was not submitted to the local accounting office by September 1st of the year. Furthermore, a copy of the annual report was not submitted by the Controller to the Office of the President.

**Management Corrective Action Plan:** The Chief Financial and Administrative Officer (CFAO) for the Chancellor’s Organization will ensure that the annual report to the Campus Controller is submitted by 9/1 of each year. Understanding that the taxable report (which is a separate report) that is due in November of each year should be validated with this report. We will also ask that the Campus Controller copy the CFAO on the report submission to the Office of the President to ensure that there is a record of it being submitted each year to UCOP by 12/15 or other due date announced by UCOP. Additionally, since UCR has a new Campus Controller, the CFAO and Senior Director of Business Operations for the Chancellor’s Organization will meet with the Controller to discuss the Annual Reports and agree upon the submission process and timeline.

**Expected Implementation Date:** Implemented.

1. **Invoice Documentation Retention**

**Criteria:** In accordance with UC Accounting Manual chapter A-000-7 – Official Documentation Required in Support of University Financial Transactions, documents and certifications must be retained in the Accounting Office according to the nature of the transaction, except that confidential documents or agreements bearing other information extraneous to the disbursement process may be retained, by approval of the Chancellor, in other appropriate offices. Specifically, unless stated otherwise, the following documentations and certifications must be retained in the Accounting Office:

* Purchase of goods and services by specific purchase order (or other contract)
	+ A copy of the purchase order
	+ The invoice

**Condition:** During our testing of 28 sampled expense transactions, we noted proper invoice documentation retention was not maintained for two expense transactions for pool maintenance services. The department was not able to locate the invoices for these two expense transactions.

**Management Corrective Action Plan:** The financial expenses for the Chancellor’s residence have now been consolidated into one accountability structure (Org 20) and Financial Team as previously outlined. This will assist with strengthening internal controls. Additionally, it is important to mention that all invoices are sent directly to Central Accounting as instructed by our campus protocols and not submitted to departments unless it meets a specific threshold that requires financial signature approval which is coordinated by Accounts Payable. These specific expenses in question were paid off of a blanket purchase order since they are for regular pool maintenance. The department uses the system generated invoices to reconcile those expenses. Those invoices have been attached to this audit response. Any variations on an amount associated with a blanket purchase order are researched and followed up with the vendor at the time of financial reconciliation. Additionally, the Financial Analyst responsible for management of the Chancellor’s residence will ensure that appropriate backup is retained on file.

The accountability change was completed in FY23 prior to Impact 23 financial system implementation. A meeting was also held with the Financial Team to discuss and ensure appropriate backup documentation is always retained.

**Expected Implementation Date:** Implemented.