

The logo for UCIrvine, featuring the letters 'UCIRVINE' in a large, black, serif font. The letters are closely spaced, with 'UC' and 'IRVINE' being particularly prominent.The text 'INTERNAL AUDIT SERVICES' in a black, serif font, arranged in two lines. A vertical line is positioned to the left of the text.

Chancellor's Expenses

Internal Audit Report No. I2017-604

August 2, 2017

Prepared By

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

August 2, 2017

MIKE ARIAS
ASSOCIATE CHANCELLOR AND CHIEF OF STAFF
CHANCELLOR'S OFFICE

RE: Chancellor's Expense Audit
Report No. I2017-604

Internal Audit Services has completed the limited review of the Annual Report of Fiscal Year Expenses of the Chancellor and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Desiree Von Haag, Operations Manager – Chancellor's Office

I. BACKGROUND

University of California, Irvine (UCI) Internal Audit Services (IAS) conducted a limited review of expenses incurred in support of the responsibilities of the UCI Chancellor for compliance with University of California Office of the President (UCOP) policy G-45: "Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors" (G-45). G-45 clarifies procedures for identifying and reporting expense of the President and the Chancellors associated with their official residences. It also describes allowable expenses incurred by the officer, such as travel, entertainment, and gift expenses. The review consisted mainly of determining the reasonableness of 2016 amounts and comparing them to previous years.

II. PURPOSE, SCOPE AND OBJECTIVES

The purpose of this review was to determine whether the reportable activity of the Chancellor's expenses complies with G-45 for the fiscal year (FY) 2015-2016.

IAS performed the following procedures:

1. Reviewed local and systemwide policies related to the Chancellor's expenses;
2. Performed a fluctuation analysis of the Chancellor's expenses to analyze and document any changes from 2014 (the last time this review was conducted) to this year; and
3. Determined whether activity in support of the Chancellor was reasonable and properly reported through the appendices in G-45: Annual Report of Fiscal Year Expenses (Appendix A) and the Annual Report of Taxable Expenses (Appendix B – Reporting Period November 1, 2015 - October 31, 2016).

III. CONCLUSION

Based on the limited procedures performed, the expenses recorded in Appendices A and B that support the Chancellor and the residence appear to be appropriate

and reported in accordance with University policies and procedures. However, concerns were noted with increases in resident entertainment costs and maintenance and the related budget process.

IV. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Budget Process and Documentation

Background

The Chancellor has felt that one underutilized resource of the campus was the Tierney University House (TUH), which was created with the dual purpose of being a residence for chancellors and a public entertainment venue. With that in mind, the Chancellor and his staff purposefully set about increasing the number of fundraising and community engagement events held at TUH. The funding to support the Chancellor's entertainment costs and the maintenance of TUH is funded from a private endowment and other unrestricted, non-state funds. There was an overall increase of approximately 44 percent in the Chancellor's entertainment costs and for the maintenance of TUH for FY 2015-16 as compared to FY 2014-15. The majority of the increase appears to be due to the growing¹ spending in entertainment because of more events and attendees at TUH.

Observation

The substantial surge of in-residence entertainment expenses may become a perception issue. Better oversight of the event costs planning and management for FY 2015-16 was needed to ensure the best use of campus resources as part of the overall Chancellor's event management process. Per discussions, the FY 2015-16 budget process entailed meetings between the Chancellor, the Executive Assistant to the Chancellor, the Chief of Staff, event management staff, and others, as necessary, to review events planned; followed by the event manager creating a cursory budget drafted to outline the projected costs of each event. The outline of the cost of the events was placed in an online file

¹ From FY 2014-15 to FY 2015-16, there was an overall increase of 7 events (from 33 to 40) and 2,395 attendees (from 1,572 to 3,115); entertainment expenses increased approximately from \$165,326 to \$442,662 (167 percent)

folder (event folders) and the Fiscal Officer used this information to advise the Budget Office regarding when to allocate the necessary funds. However, based on additional inquiry and documentation review, IAS noted the following.

- The approval process for events lacks adequate documentation (for example, a written budget and justification for realistic projections and explanations for significant increases).
- The Office Manager/Fiscal Officer is not present during the meetings where the preliminary budgets for events are discussed even though she is responsible for signing off and approving financial documents charging expenditures against the Chancellor's funds.
- For FY 2015-16, it does not appear that there are detailed documentation of estimates versus actuals to indicate the projected budget was monitored against the actual expenses. Also, there are no documented explanations for the differences between the budgeted amounts and the actual expenses recorded.
- The spreadsheet that shows projections and final cost (updated cost) is incomplete in some areas (for example, the budget projections for events listed from July through December 2015 were not maintained - only the actual expenses. Conversely, the projected costs for January to June 2016 were noted, however, the column listing actual expenses was blank).

Refining budgetary procedures and practice will enhance internal controls disclosure and show transparency in regards to efficient allocation and administration of campus resources. IAS recommends that the Operations Manager/Fiscal Officer be involved in the events budget discussion meetings to provide financial information and oversight.

Management Action Plan

When Chancellor Gillman assumed the role of Chancellor, he conveyed to senior leadership and to office staff his intent to focus his time and effort on promoting the University's values and vision, and on obtaining additional resources to advance the mission. While recognizing and planning for an increased number of events and their associated costs, the Chancellor's staff has remained mindful of their obligation to shepherd the University's resources wisely. The cost of individual events are reviewed regularly and the staff modify details to be as cost efficient as possible while still achieving goals.

The Chancellor's Chief of Staff meets informally with staff several times a week, and formally at least once a month. They review events formally with the Chancellor on a quarterly basis.

For FY 2016-17, the Chancellor's Office has implemented budgetary procedures and practices that will enhance internal control disclosures and show transparency in regards to efficient planning, allocation, and administration of campus resources. The Operations Manager now requires an events budget that lists detailed projections and actuals. To provide more oversight of the planning and management of actual costs during the events, the event management staff has been reassigned to report directly to the Senior Director of Special Events and Protocol in Strategic Communications and Public Affairs. The Operations Manager/Fiscal Officer will attend the event planning sessions in order to provide input on financial-related questions and to maintain fiscal communications with the Associate Chancellor/Chief of Staff. Approvals of preliminary budget expenses will be documented through meeting minutes and/or budgetary reports and the Chancellor's Office event staff should work closely with the Operations Manager/Fiscal Officer and the Budget Office to ensure the Chancellor's programs and needs are understood. IAS will follow up on October 1, 2017.