

March 31, 2010

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SMG Coordinator
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***Subject: Review of the Annual Report on Executive Compensation
AMAS Audit Project 2011-31***

Audit & Management Advisory Services (AMAS) has completed a limited review of the 2010 Annual Report on Executive Compensation (AREC). This report summarizes the results of our review.

Background

In accordance with the UC Senior Leadership Compensation Policy, approved by the Regents in November 2005, UCSD prepares an Annual Report on Executive Compensation (AREC) each calendar year, which is submitted to the University Office of the President (UCOP) for presentation to the Regents.

The AREC includes compensation elements for employees for which the Regents have retained direct authority to approve compensation. This group of employees is referred to as the Senior Management Group (SMG), and includes the Chancellor, Vice Chancellors and the Medical Center CEO. The AREC also includes non-SMG employees who are in the Senior Leadership Compensation Group whose total cash compensation exceeds \$218,000 for the calendar year 2010. For non-SMG employees whose total cash compensation exceeded \$218,000, approval for total cash compensation must be made by either the University President or UCSD Chancellor, depending on whether or not the employee reports directly to the Chancellor, or in cases where the action involves a policy exception.

For purposes of the AREC, total cash compensation includes the employee's annualized salary, actual bonus or incentive payments, actual health sciences compensation, annualized stipends and other cash compensation or payments that would be considered W-2 income. Although not included in total cash compensation, the AREC also includes housing relocation payments and the amount of any University provided home mortgage. The following elements are not included in the report: accrual of sabbatical, near relative appointments, exceptional vacation accrual, terminal vacation payments in accordance with policy and imputed income. Many of these elements are captured in the Senior Leadership Information System.

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For the 2010 AREC, UCOP directed that the AREC not include the College Provosts that were transferred to the academic personnel program as of July 1, 2010, nor incumbents that are no longer employed with the University.

Audit Objective, Scope and Procedures

The objectives of our review were to evaluate if the population of employees and total cash compensation reported on the 2010 AREC was complete and accurate, that compensation elements and components for employees listed were appropriately approved, and that travel and entertainment expenses (on a sample basis) paid to or on behalf of employees included in 2010 AREC were reasonable and in compliance with University policy. In order to achieve our objectives, we performed the following procedures:

- Interviewed the local SMG Coordinator responsible for preparing the AREC;
- Using FinancialLink Distribution of Payroll Expense (DOPE) query, calculated total cash compensation for all SMG's, and management and senior professionals (MSP's) with total cash compensation exceeding \$218,000;
- Compared the total cash compensation calculated above to that which was reported on the draft 2010 AREC;
- For employees who were added to the AREC in 2010, or whose compensation increased in 2010, verified that the total cash compensation was appropriately approved by the Regents, University President and/or UCSD Chancellor;
- Reviewed University Business and Finance Bulletins (BFB) G-28 (Policy and Regulations Governing Travel), and BUS-79 (Expenditures for Business Meeting, Entertainment, and Other Occasions); and
- Randomly selected a sample of ten employees included in the 2010 AREC, and reviewed travel and entertainment expenses paid to or on behalf of each selected employee for compliance with University policies.

Conclusion

Based on our review procedures, we concluded that the draft 2010 AREC appeared to be accurate and complete. However, we did note that 2010 base salary increases for two employees were not appropriately approved prior to the effective date of the pay increase, and therefore required retroactive approval by the UC President. We also noted that travel expenses incurred by two employees were not appropriately approved in strict conformance with University policy.

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Observations and Recommendations

Salary Action Approval Authority

We noted that two salary actions were not properly approved prior to the effective date of the salary increases, resulting in a request for retroactive approval from the UC President.

To assist campuses in complying with the approval requirements for SMG level salary actions, and salary actions for all other non-SMG reported on the AREC, UCOP released an *Authority Approval Matrix* (matrix) in April 2009. According to the matrix, salary actions for non-SMG employees must be approved by the UC President when the action is outside of policy and the employee's total cash compensation exceeds \$275,000, or when the non-SMG staff member reports directly to the Chancellor.

During the 2010 calendar year, the UCSD Chancellor approved base salary increases for the Assistant Vice Chancellor - Resource Strategy and Planning and the Chief Human Resources, Safety and Risk Officer, effective March 1 and July 1, respectively. Both of these increases resulted in base salary exceeding the salary grade maximum for each respective position, and resulted in the employees having a total cash compensation level exceeding \$275,000. Because the approval requirements detailed on the matrix were not correctly interpreted by UCSD staff responsible for routing salary actions to the proper approval authority, Presidential approval was not sought before these salary actions became effective. UCOP identified that these pay increases were not properly approved during the third quarter of the 2010 calendar year and, therefore, requested retroactive approval from the President.

Management Corrective Action:

The President retroactively approved the base salary increases in September 2010.

The UCSD SMG Coordinator has been made aware of how to interpret the *Approval Authority Matrix*. For all future salary actions, the review process will include a step to determine if each action is in accordance with policy so that exceptions to policy are routed to the proper approval authority.

Approval of Travel Expenses

During our testing of travel expenses, we noted that two employees incurred travel expenditures that were not approved in strict accordance with BFB G-28.

Of the ten employees selected for detailed testing of travel expenses incurred during 2010, two employees incurred travel expenditures that were not approved in strict accordance with BFB G-28, as follows:

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- The Chief Human Resources, Risk Management and Safety Officer approved all nine of his own 2010 travel vouchers.
- A Library administrative analyst provided final approval for the five of the 26 trips taken by the UCSD Librarian. Since all UCSD Libraries employees report directly or indirectly to the Librarian, responsibility for approving the Librarian's travel vouchers should be assigned to a staff member that does not work for the UCSD Libraries.

BFB G-28, Section IV, states that travel expense vouchers may not be approved by a person who reports directly or indirectly to the traveler. In addition, individuals with delegated authority may not approve their own travel vouchers.

Management Corrective Action:

The Healthcare Human Resources office has modified their primary and alternate travel approval hierarchies so that final approval is assigned to individuals who do not report directly or indirectly to the Chief Human Resources, Risk Management and Safety Officer.

The Library has similarly re-evaluated and modified their process so that final approval for travel vouchers submitted by the Librarian is provided by an individual who does not report directly or indirectly to the Librarian.

We appreciate the cooperation and assistance provided during the review.

UC policy requires that all draft audit reports (copied on tan paper for ease of identification) be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel or destroy them at this time.

If you have any questions regarding this report, please call me at 534-3617.

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