

UCSB AUDIT AND ADVISORY SERVICES

April 1, 2011

To: Business and Finance Manager Patricia Tobar
Office of the Chancellor

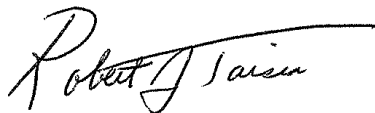
Re: **Executive Compensation – Chancellor’s Expenses**
Audit Report No. 08-11-00013

As part of the 2010-11 annual audit plan, Audit and Advisory Services conducted an audit of the Chancellor’s expenses. Enclosed is the audit report detailing the results of our review.

The purpose of this review was to ensure that the 2009-10 Annual Report of Fiscal Year Expenses of the Chancellor (Appendix A) and the Annual Report of Taxable Expenses of the Chancellor (Appendix B) were prepared in compliance with University of California (UC) Business and Finance Bulletin G-45, *Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors* (BFB G-45). The scope of the review included discussions with Office of the Chancellor staff and limited testing of travel expenses, general expenses, and expenses that were not reported on Appendix A.

Based on the results of the work performed within the scope of the audit, the Office of the Chancellor, for the most part, properly prepared Appendix A for fiscal year 2009-10, while Appendix B was prepared correctly. The Office of the Chancellor has established effective internal controls over the collection and reporting of the Chancellor’s expenses. However, our review did identify areas in which internal controls could be strengthened. The more significant of these areas include the need for additional review of accounting data to ensure that all relevant Chancellor’s expenses are reported, and compliance with UC policy limits on carrying forward administrative fund amounts.

We have included a copy of our detailed observations and management corrective actions with this cover memo. The management corrective actions provided indicate that each audit observation was given thoughtful consideration and that positive measures have been taken or planned to implement the management corrective actions. The cooperation and assistance provided by you and Accounting Services and Controls staff during the review was sincerely appreciated. If you have any questions, please feel free to contact me.



Robert Tarsia
Acting Director
Audit and Advisory Services

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Enclosure

cc: Chancellor Henry Yang
Associate Vice Chancellor Ron Cortez
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca

Executive Compensation – Chancellor’s Expenses

Audit Report No. 08-11-00013

Performed by:

Albert Rojas, Staff Auditor

Approved by:

Robert Tarsia, Acting Director

**UCSB Audit and Advisory Services
Executive Compensation – Chancellor’s Expenses
Audit Report No. 08-11-00013**

Purpose and Scope

The purpose of this review was to ensure that the Annual Report of Fiscal Year Expenses of the Chancellor (Appendix A) and the Annual Report of Taxable Expenses of the Chancellor (Appendix B) were prepared in compliance with University of California (UC) Business and Finance Bulletin G-45, *Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors* (BFB G-45). The scope of the review included discussions with Office of the Chancellor staff and limited testing of travel expenses, general expenses, and expenses that were not reported on Appendix A.

Background

The Regents of the University of California recognize the unique role of the Chancellors in representing the University. In performance of this role, the Chancellors are called upon to extend official hospitality to important visitors, and to entertain guests of the University in conjunction with alumni and development activities, campus events, and other official functions.

In consideration of the duties and responsibilities of the Chancellors, The Regents provide each Chancellor with suitable housing to enable the individual to perform the administrative, ceremonial, and social functions required of the position. The Chancellors are required to occupy that housing as a condition of employment and for the convenience of the University. Additionally, Chancellors are provided with administrative funds to supplement their departmental budgets.

BFB G-45 specifies procedures for identifying and reporting expenses of the Chancellor in association with their official residence, as well as addressing those expenses that may create additional taxable income for the Chancellor. Additionally, BFB G-45 summarizes and incorporates by reference other existing University policies governing allowable expenses incurred by the Chancellor, and addresses the appropriate use of the funds available to the Chancellor in support of official duties and the required reports for documenting the use of those funds.

On an annual basis, Appendix A and B must be completed to account for all of the expenses incurred by the Chancellor and his Associate. Appendix A includes all of the following expenses:

- Housing expenses of the Chancellor
- Travel expenses
- Entertainment expenses incurred outside of the Chancellor’s residence
- Gift expenses

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- Membership expenses
- Expenses of the Associate of the Chancellor
- Other expenses

The total amount of the expenses reported on Appendix A for the previous fiscal year must be submitted to Accounting Services and Controls by September 1st of the current year. In addition, Appendix B reports all of the taxable personal-benefit expenses that are incurred by the Chancellor for support staff and equipment expenses between November 1st of the prior year through October 31st of the current year. Appendix B must be submitted to Accounting Services and Controls by November 15th of each year.

At UC Santa Barbara (UCSB), the Business and Finance Manager in the Office of the Chancellor has been delegated the responsibility for collecting and reporting expenses on Appendix A and Appendix B. In addition, the Business and Finance Manager is responsible for the administration of the Chancellor’s administrative fund.

Summary Opinion

Based on the results of the work performed within the scope of the audit, the Office of the Chancellor, for the most part, properly prepared Appendix A for fiscal year 2009-10, while Appendix B was prepared correctly. The Office of the Chancellor has established effective internal controls over the collection and reporting of the Chancellor’s expenses. However, our review did identify areas in which internal controls could be strengthened. The more significant of these areas include the need for additional review of accounting data to ensure that all relevant Chancellor’s expenses are reported, and compliance with UC policy limits on carrying forward administrative fund amounts.

The audit observations and management corrective actions are detailed in the remainder of the audit report.

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Detailed Observations and Management Corrective Actions

A. Chancellor’s Administrative Fund

Administrative funds are provided to the Chancellor, by action of The Regents, to supplement his departmental budget. The funds are provided to the Chancellor as additional resources for the performance of his official responsibilities, and all disbursements made from the administrative fund must be made for a recognized business purpose. The audit found the following:

1. Administrative Fund

More than 25% of the Chancellor’s \$40,000 fiscal year 2009-10 annual allocation for administrative funds was not expended, and was carried forward to be used in fiscal year 2010-11. The UC Accounting Manual states that “up to 25% of the recipient’s annual allocation may be carried forward for use in the next fiscal year; any unused portion beyond 25% must be returned to the accounting office at the end of the fiscal year. For recipients maintaining administrative funds in a separate UC checking account, the unexpended funds must be returned to the local accounting office when the June 30th report of expenditures is filed.” 25% of the fiscal year 2009-10 annual allocation would have been \$10,000; the Office of the Chancellor carried forward \$18,577.

To improve compliance with UC policy, all appropriate expenses that fall within UC Accounting Manual definitions should be charged to the administrative fund. Unspent amounts in excess of 25% of the annual allocation should be returned to Accounting Services and Controls at the end of each fiscal year. This will ensure compliance with the UC Accounting Manual.

Management Corrective Actions

The Business and Finance Manager will comply with UC policy and be held responsible for contacting Accounting Services and Controls and returning any unused portion in excess of 25% of the Chancellor’s annual administrative fund allocation. Said funds will be returned to Accounting Services and Controls by July 31st of each year.

The management corrective action will be implemented beginning with the fiscal year 2010-11 administrative funds. All unused administrative funds over 25% will be returned to Accounting Services and Controls by July 31, 2011.

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B. Chancellor’s Expenses

Our work included audit tests to determine whether the Office of the Chancellor reported all of the Chancellor’s expenses that are reportable under BFB G-45, as well as ensuring that expenses reported on Appendix A were in compliance with University policies and procedures. We reviewed the following:

- A sample of seven fiscal year 2009-10 expenses charged to the Chancellor’s accounts, but not reported in Appendix A, to ensure that they were not reportable under BFB G-45 requirements.
- Five travel expense payments from the fiscal year 2009-10 Appendix A, to determine whether they complied with Business and Finance Bulletin G-28, *Policy and Regulations Governing Travel*.
- A sample of 20 general expenses that were reported on the fiscal year 2009-10 Appendix A to determine whether they were properly categorized in Appendix A, appropriate business expenses, properly approved, and otherwise in compliance with UC policies and procedures.

The audit identified no concerns with travel and general expenses. However, we found the following with regard to unreported expenditures:

1. Unreported Expenditures

Additional expenditures of \$6,722 should have been reported on Appendix A. The Business and Finance Manager indicated that she ran queries through the Data Warehouse’s EZ Access application which captured all of the expenses charged to the Chancellor’s accounts. While gathering the reportable expenses, a few expenses had accidentally been deleted. \$6,500 of the \$6,722 (or 97%) was in the form of four cash awards; the Business and Finance Manager indicated that she was not aware that awards should be reported in Appendix A. Personnel responsible for reviewing the draft Appendix A also did not realize the error.

To improve the accuracy of expense reporting, the Business and Finance Manager should identify the account-fund-sub that is associated with each line item on Appendix A. The amounts reported on each line item should be compared to the activity per the applicable general ledger account-fund-sub. Additionally, the fiscal year 2009-10 Appendix A should be revised, recertified, and resubmitted to correct the unintentional underreporting. This will help ensure compliance with BFB G-45, reduce the risk of underreporting, and ensure accurate reporting of the Chancellor’s expenses.

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Management Corrective Actions

Appendix A:

- The Business and Finance Manager inadvertently deleted line item expenses for Puretec Industrial Water totaling \$222 from the Data Warehouse draft spreadsheet, which went unnoticed on the final spreadsheet reflecting all expenses for the General Maintenance category. In turn, this led to an incorrect amount reported on Appendix A – General Maintenance category. The Business and Finance Manager will develop a process or procedure for reviewing all expenses associated with Appendix A. This may include the assistance of additional Chancellor’s Office staff for review purposes.
- The Business and Finance Manager was not aware that annual campus awards (e.g. Faculty Research Lecturer and the Chancellor’s Award in Excellence in Undergraduate Research) were to be reported in the “Gift Expenses” category of Appendix A. The Business and Finance Manager will comply with this Audit Report No. 08-11-00013 and include the annual awards in future annual reports to the Office of the President.

The management corrective action regarding developing a process or procedure for reviewing all expenses associated with Appendix A will be implemented by September 30, 2011. The Annual Report of Fiscal Year Expenses of the Chancellor for fiscal year 2009-10 will be revised, recertified, and resubmitted to the Office of the President by April 30, 2011.

2. Form 1099 Compliance

A \$5,000 award issued by the Chancellor should have resulted in the issuance of an Internal Revenue Service (IRS) Miscellaneous Income Form 1099. Accounting Services and Controls indicated that the information was properly entered into the accounts payable processing system, but a Form 1099 was not generated due to problems with the system. The IRS requires Form 1099s for payments of this type of \$600 or more. The Business and Finance Manager should work with Accounting Services and Controls to correct the error.

Management Corrective Actions

The Business and Finance Manager will contact Payroll Accounting to make sure that a Form 1099-MISC (Miscellaneous Income) has been issued to the spouse of the deceased 2009 Faculty Research Lecturer Awardee. For future recipients (normally UCSB employees) of the Faculty Research Lecturer Award, the Business and Finance Manager will contact Payroll Accounting to make sure the award is included in the recipient’s W-2 for the year.

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The Business and Finance Manager will contact Payroll Accounting by April 30, 2011, to make sure a Form 1099-MISC was issued to the spouse of the deceased 2009 Faculty Research Lecturer Awardee.