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INTERNAL AUDIT AND ADVISORY SERVICES

CY23 Annual Report on Executive Compensation (AREC)

Audit

Report No. M25A002

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CY23 Annual Report on Executive Compensation (AREC) Audit

EXECUTIVE SUMMARY

Internal Audit and Advisory Services (Internal Audit) has conducted an audit of UC Merced's CY23 Annual Report on Executive Compensation (AREC). This audit is a systemwide directive conducted every three years and was carried out as part of Internal Audit's responsibilities for the fiscal year 2025 audit plan. The primary objective of the audit was to assess the completeness, accuracy, and compliance with executive compensation reporting requirements.

Overall, Internal Audit noted UC Merced's process for identifying individuals to be reported in the AREC, validating compensation to be reported in the AREC, and gathering required survey information from relevant employees appears to be operating effectively.

BACKGROUND

As part of its commitment to transparency and public accountability, the University of California (UC) publicly reports employee pay data each year, including its Annual Report on Executive Compensation (AREC). The AREC compiles *total compensation*¹ data from all UC locations for a defined population of employees. Each year, UCOP Institutional Research and Academic Planning establishes the criteria for which employees are subject to AREC requirements. For CY23, the employees subject to AREC requirements included active university employees as of December 31, 2023, that meet the following criteria:

- All incumbents that were appointed into and/or held a position in the Senior Management Group (SMG) personnel program during calendar year 2023 regardless of total cash compensation. This includes employees who were in an acting or interim SMG position as well as those that held less than a 100% SMG Appointment during calendar year 2023.
- All non-SMG employees that are in other staff personnel programs (MSP and PSS) whose total cash compensation exceeds the reporting threshold, which is \$387,700 for the 2023 AREC report. Reportable employees also include Athletic Directors and Other Athletic Positions, however, do not include Staff Physicians, Academic Deans and certain academic administrators.

¹Total compensation is defined in the UC [Board of Regents Policy 7200: Policy on Definition of Total Compensation](#)

At UC Merced, the criteria resulted in twelve active employees identified as serving in SMG positions during CY23. Internal Audit notes there were no other non-SMG employees identified who earned above the total compensation threshold.

The Senior Management Group (SMG) Coordinator in Human Resources is responsible for AREC preparation and reporting.

SCOPE AND OBJECTIVES

This audit is a systemwide directive conducted every three years to assess compliance with executive compensation reporting requirements, and it was carried out as part of Internal Audit's responsibilities for the fiscal year 2025 audit plan. The primary objective of the audit was to assess the completeness, accuracy, and compliance with AREC reporting requirements.

Additional objectives included:

- To verify the accuracy, completeness and timely preparation of the 2023 AREC.
- To ensure all individuals in the reportable population for UC Merced were included in the 2023 AREC, and that the correct compensation amounts were reported for each individual.
- To ensure each individual listed on the 2023 AREC completed and signed a Potentially Compensable Transactions - Individual Certification for Calendar year 2023, including a Questionnaire on Potentially Compensable Transactions.

Internal Audit's primary scope included all of the SMG compensation transactions and controls in place during CY23. The audit included interviews of personnel, review of policies, tests of accounting records and selected transactions, observations and tests of current practices and processing techniques, and other auditing procedures considered necessary.

POSITIVE OBSERVATIONS

UC Merced is dedicated to upholding excellence in fulfilling its core objectives of teaching, research, and public service. To fulfill this mission, all university stakeholders are expected to demonstrate a strong commitment to driving positive transformations within the institution. As such, Internal Audit is committed to highlighting practices that drive change within the audited areas and throughout the university.

During the AREC engagement, Internal Audit noted the following positive observations:

- The SMG Coordinator has an effective process for sending out and collecting surveys from the SMGs.
- The SMG Coordinator has an effective system for maintaining documentation for AREC data.
- HR has an effective process for identifying reportable SMGs including interim SMGs.

RESULTS

Based on the work performed, the information submitted for the 2023 AREC appears to be complete, accurate, and was submitted timely. Internal Audit further notes that all individuals in the reportable population for UC Merced were correctly submitted and the compensation amounts were validated. In addition, all individuals completed and signed the required certifications and questionnaires.