



UCSB Audit and Advisory Services
Internal Audit Report

**Executive Compensation:
Chancellor's Expenses and T & E Review**

April 12, 2013

Performed by:

Olga Mery, Senior Auditor
Raphaëlla Nau, Staff Auditor

Approved by:

Robert Tarsia, Director

Report No. 08-13-0014

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AUDIT AND ADVISORY SERVICES
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April 12, 2013

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

Re: **Executive Compensation: Chancellor's Expenses and T & E Review
Audit Report No. 08-13-0014**

As part of the 2012-13 annual audit plan and in conjunction with systemwide efforts, Audit and Advisory Services conducted an audit of the Chancellor's expenses. Enclosed is the audit report detailing the results of our review.

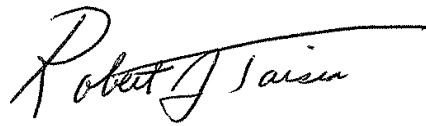
The purpose of this review was to ensure that the 2011-12 Annual Report of Fiscal Year Expenses of the Chancellor (Appendix A) and the Annual Report of Taxable Expenses of the Chancellor (Appendix B) were prepared in compliance with University of California (UC) Business and Finance Bulletin G-45, *Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors* (BFB G-45). We also reviewed travel and entertainment expenses submitted by the Chancellor to ensure they complied with Business and Finance Bulletin G-28, *Policy and Regulations Governing Travel*, and Policy BUS-79, *Policy on Expenditures for Business Meetings, Entertainment, and Other Occasions*.

The scope of the review included the Chancellor's expenses incurred during the period of July 2011 through October 2012.

Based on the results of the work performed within the scope of the audit, the Office of the Chancellor properly prepared both Appendix A for fiscal year 2011-12 and Appendix B. 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 some areas in which internal controls could be strengthened.

Detailed observations and management corrective actions are included in the following sections of the report. 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 the Chancellor's staff during the review was sincerely appreciated. If you have any questions, please feel free to contact me.

Respectfully submitted,

A handwritten signature in black ink that reads "Robert Tarsia". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

Robert Tarsia
Director
Audit and Advisory Services

Enclosure

cc: Chancellor Henry Yang
Associate Vice Chancellor Ron Cortez
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
Jim Corkill, Director and Controller, Business and Financial Services
Leslie Griffin, Associate Director, Business and Financial Services
Kevin McCauley, Executive Assistant to the Chancellor

**UCSB Audit and Advisory Services
Chancellor's Expenses and T & E Review
Audit Report No. 08-13-0014**

PURPOSE

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). We also reviewed travel and entertainment expenses submitted by the Chancellor to ensure they complied with Business and Finance Bulletin G-28, *Policy and Regulations Governing Travel*, and Policy BUS-79, *Policy on Expenditures for Business Meetings, Entertainment, and Other Occasions*. This audit is part of UCSB's 2012-13 annual audit plan and was performed in conjunction with systemwide efforts.

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the review included the Chancellor's expenses incurred during the period of July 2011 through October 2012.

We gained an understanding of relevant UC policies and UC Santa Barbara (UCSB) processes for accumulating and reporting the Chancellor's expenses, reviewed Appendix A and Appendix B to ensure they were complete and prepared correctly in compliance with applicable policies, and performed limited testing of general expenses and travel expenses. We also reviewed other selected expenses to ensure the completeness of Appendix A. Additionally, travel and entertainment expenses incurred by the Chancellor were reviewed to ensure compliance with UC Policies and Procedures.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

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. Administrative funds are provided by action of The Regents. 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. UC Accounting Manual Chapter A-253-27, *Administrative Fund Payments*, details the policies and procedures governing the management of the administrative funds.

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, Appendices 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
- 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 Business & Financial Services by September 1 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 1 of the prior year and October 31 of the current year. Appendix B must be submitted to Business & Financial Services by November 15 of each year.

At 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 properly prepared both Appendix A for fiscal year 2011-12 and Appendix B. 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. These areas include the need for compliance with UC policy limits on carrying forward administrative fund amounts, and proper reconciliation of the administrative fund to the general ledger.

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

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

Chancellor's Administrative Fund

Administrative funds are provided to the Chancellor, by action of The Regents, to supplement the Chancellor's 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 Carry Forward

For fiscal year 2010-11, there was an unused \$22,100 allocation. For fiscal year 2011-12, the prior fiscal year's unused allocation was reappropriated and carried forward with the remaining cash balance. The Chancellor's 2011-12 annual allocation of \$44,200 for administrative funds was expended; however, the reappropriated amount of \$22,100 from fiscal year 2010-11 was not expended and was carried forward. 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." The 25% maximum of the fiscal year 2011-12 annual allocation carry forward was \$11,050; the Office of the Chancellor carried forward \$32,547.

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 Business & Financial Services at the end of each fiscal year. This will ensure compliance with the UC Accounting Manual.

2. Reconciliation of Administrative Fund Checkbook to GL Cash Account

There was an unreconciled difference between the reconciled administrative fund check register year-end balance and the year-end general ledger cash balance for this account. To ensure that all funds are properly accounted for and all expenditures are properly recorded, this account should be properly reconciled monthly.

Management Corrective Actions

1. Administrative Fund Carry Forward

The Business & Finance Manager has been in contact with Business & Financial Services colleagues to discuss the UC policy and has agreed to comply and be held responsible for contacting Business & Financial Services to return any unused portion in excess of 25% of the Chancellor's annual administrative fund allocation by July 31 of each fiscal year.

The management corrective action will be implemented beginning with the 2012-13 fiscal year administrative fund allocation. All unused administrative funds in excess of 25% will be returned to Business & Financial Services by July 31, 2013.

2. Reconciliation of Administrative Fund Checkbook to General Ledger Cash Account

Although the Business & Finance Manager reconciles the administrative fund check register on a monthly basis, the manager has agreed to comply and be held responsible for contacting Business & Financial Services regarding changes to the bank account balance (e.g., voided checks, canceled checks, etc.) in order to keep the bank account check register and the general ledger cash account in balance.

The management corrective action will be implemented beginning with the April 2013 administrative fund check register and the general ledger cash account reconciliation, to be completed by May 31, 2013.