

UC MERCED AUDIT AND ADVISORY SERVICES

June 20, 2017

To: Michael Reese – Vice Chancellor for Business and Administrative Services
Subject: Moving Expenses Audit
Ref: Audit Report No. M17A010

At your request, Internal Audit has completed an audit of moving expenses. We appreciate the help we received from Accounting Services and Travel Services staff during this audit.



Todd Kucker
Director of Internal Audit

Attachment

cc

Interim SVP Lohse
Chancellor Leland
Associate Chancellor Putney
Associate Vice Chancellor Powell
Assistant Vice Chancellor and Controller Riley
Assistant Controller Groesbeck
Assistant Vice Provost Gubser
Manager Snyder

**UNIVERSITY OF CALIFORNIA, MERCED
AUDIT AND ADVISORY SERVICES**

Moving Expenses
Report No. M17A010

June 20, 2017

Work completed by:
Todd Kucker – Internal Audit

Management Summary

Internal Audit has completed an audit of moving expenses. The purpose of the audit was to determine whether UC Merced's spending for new employee relocations complies with UC policies and Internal Revenue Service (IRS) regulations.

During our audit, we noted instances where new employees were reimbursed for expenses which are not allowed by UC policies. We also noted instances where the campus paid for employee relocations for employees who, according to the UC policies, were not eligible for moving expense reimbursements.

The report highlights the many details in UC policies and IRS regulations related to moving expenses. Overall, we concluded that the processing of moving expenses needs improvement. In the report below, we recommend that UC Merced assign responsibility for these reimbursements to one department in order to simplify processes and improve overall compliance.

Objectives and Scope

At the request of campus leadership, Internal Audit has completed an audit of moving expenses. The purpose of the audit was to determine whether UC Merced's spending for new employee relocations complies with UC policies and Internal Revenue Service (IRS) regulations. The audit objectives were to:

- Determine whether the processes for reviewing and approving moving expenses result in reimbursements that are compliant with UC policies and IRS regulations;
- Determine whether relocation expenditures are accurately classified as non-taxable or taxable compensation for employees; and,
- Review that the documentation requirements of the University's accountable plan are followed so certain moving expenses do not result in taxable compensation for new employees.

The scope of the audit included moving expenses reimbursed and paid to employees during July 1, 2015 through January 31, 2017. During January 2017, UC Merced Accounting Services completed their own review of relocation processes for this time period. Internal Audit evaluated the results of their review and determined whether we came to the same conclusions. During this period, there were 62 relocations that were paid on behalf of, or reimbursed to, new employees. To complete the audit objectives, we selected 30 of the relocations and reviewed documentation for proper approval and compliance with UC policies and IRS regulations.

Background

UC Merced offers to pay relocation expenses for many new employees. The proposed amounts to be paid are outlined in the offer letters. The IRS allows employees to deduct moving expenses if: the employee's move is closely related to the start of a new job location, the expenses are

incurred within one year of starting the new job, and the new job location is at least fifty miles farther from the employee's former home than the employee's former job location. UC Merced has an accountable plan for moving expenses so certain amounts do not have to be reported as taxable compensation for the employee. This benefits the new employees as amounts are immediately determined to be non-taxable rather than having to deduct the expenses on their individual tax returns.

To enforce the requirements of the accountable plan, there are different policies regarding moving and relocation expenses for Senior Management Group (SMG) employees, staff, and faculty at UC locations. While the taxability of the different expenses is the same for all employees, SMG employees are allowed some expenditures for which other employees are not entitled.

BFB-G-13: *Policy and Regulations Governing Moving and Relocation* is the University's policy to comply with IRS regulations concerning the reimbursement of moving expenses by staff employees. The policy explains which "actual and necessary" moving expenses are eligible for reimbursement and provides examples of costs which are not to be reimbursed. Based upon these reimbursable expenses, the policy then breaks down the costs which can be excluded from the employee's taxable compensation and which expenses are taxable.

Regents Policy 7710: *Senior Management Group Moving Reimbursement* is the university's policy that describes requirements and process for the reimbursement of moving and relocation expenses for Senior Management Group members. The policy allows certain costs to be reimbursed which BFB-G-13 does not allow for staff. An example of these costs would be the expenses associated with house hunting trips which are reimbursable to SMG members.

For academic employees, there are a few policies in the Academic Personnel Manual (APM) which relate to relocations. APM-560: *Removal Expenses/General* outlines moving expenses for which certain academic employees are eligible. The policy lists the different academic appointees that are eligible for "removal expenses". There are various nuances to the policy which explain the different expenses that will be reimbursed, instances when only 50% of the expenses will be reimbursed, and the fund sources to pay the costs. Other APM policies relate to special situations. APM-550: *Moving Expenses for Intercampus Transfer* applies when the new academic appointee is from another UC campus. APM-561 *Removal Expenses/Assistants* provides guidance when moving expenses will be reimbursed to other academic employees, including Teaching Assistants.

During the hiring process for staff and faculty, departments include the reimbursement of moving expenses are part of the offer to the new employee. The offer letters include the maximum amount of moving expenses to be reimbursed and guidance related to the UC's policies. After a new employee has accepted the job offer, the hiring department coordinates the expenses which can be direct billed to the university. This includes the cost of a moving company. Other expenses are paid by the new employee and reimbursed.

After the move has been completed, receipts are submitted for reimbursement. A "Relocation Expense Form" is completed which is used to determine whether expenses incurred are taxable

or non-taxable to the employee. Employees from the Academic Payroll Office, Administrative Coordination Team (ACT), and Accounting Services are involved with completing the reimbursement documentation for faculty and staff. The employee's supervisor and the new employee review and approve the completed Relocation Expense Forms.

Reviewing and recording moving expenses requires some expertise. It appears to be a complicated and time-consuming process which requires good understanding of the IRS regulations and an understanding of the various UC policies which relate to different employees. New employees sometimes seek reimbursement for expenses which UC policies do not allow to be included in moving expenses. As a result, a significant percentage of relocations end up in requests for policy exceptions from campus leadership in order to reimburse for these expenses.

The proper review of moving expenses is important as the IRS requires adequate documentation for an accountable plan. Improperly classifying amounts that should be taxable as non-taxable could cause the IRS to disqualify an organization's accountable plan. If this were to occur, all amounts paid to employees for moving expenses would be included in employees' taxable compensation. The employees would have to handle their own deductions for moving expenses on their individual tax returns.

Conclusion

During their review, Accounting Services reviewed all 62 relocations for compliance. As part of our audit, we reviewed their testing results and noted that they identified exceptions to policy and IRS regulations in around 60% of the relocations.

During our audit, we completed our own testing of relocations. From our testing, we came to the same conclusions as Accounting Services regarding non-compliance with UC policies. We noted various instances where employees were reimbursed for moving expenses that did not comply with UC policies. While we noted inconsistency with complying with UC policies, we did not identify issues related to correctly classifying expenses as non-taxable and taxable compensation.

Overall, we concluded that compliance with UC policies regarding moving expenses needs improvement. The following are some of the issues we noted during the audit and our recommendation for improving processes related to moving expenses.

Observations and Recommendation

Simplify Reimbursement Processes and Improve Compliance with UC Policies

We noted instances where new employees were reimbursed for expenses that UC policies did not deem eligible for reimbursement. The following were examples of expenses incurred which UC policies did not identify as "actual and necessary":

- New employees included a vacation during their move to the Merced area rather than being reimbursed for the most direct route;
- Extra meals and more nights in a hotel were charged than was necessary for the move;
- Moving more than one household was involved in the move; and,
- Non-SMG employees were reimbursed for house hunting trips to the Merced area.

While hiring departments provide guidance to new employees regarding moving expenses that will be paid by the university, it is difficult to determine whether the new employees utilize the links to UC policies and whether they understood the many policy requirements.

We also noted instances where academic appointees were reimbursed for moving expenses although it appears they were not eligible for these reimbursements per APM-560. Extra steps are sometimes required to determine whether academic appointees are eligible for moving expense reimbursements. For example, APM-560 allows reimbursement of moving expenses where the appointee is paid from a grant or contract where these expenses are allowable.

During the audit, we noted that the Academic Personnel Office has put together written guidance for “Academic Relocation and House Hunting Guidelines” (dated July 2016). The guidelines summarize the requirements of the APM policies related to relocations. The guidelines appear to be less restrictive than the APM policies as they allow house hunting expenses for academic appointees. Also, the guidelines explain whether a Dean or the Provost is able to approve certain policy exceptions. During our review of relocations, we noted that there appears to be confusion in handling policy exceptions for moving expenses, as the requests were sometimes sent to the Provost, the Vice Chancellor for Business and Administrative Services, and to other Deans and Vice Chancellors.

As there are many policy exception approvals required from senior management for these reimbursements, the process appears to be time consuming and more complicated than it should be. To simplify the process, we recommend that the responsibilities for handling moving expenses be centralized with one department. The responsible staff from this department should become involved with managing the process once the new employee accepts the position with UC Merced. The new employee should be contacted and easy to understand written guidance should be provided to the new employee rather than expecting the new employee to read UC policies. Providing better guidance before expenses are incurred should prevent a new employee from being surprised when expenditures result in unexpected taxable compensation. The responsible staff should have the expertise to process the reimbursement, determine the taxable and non-taxable classification of expenses, and manage the entire process for a new employee from start to finish.

Management Corrective Action

Travel Services proposes that all relocation processing for the campus be centralized into Travel Services. The majority of the expenses related to relocation are travel related and the Travel Services staff have the knowledge and expertise to provide the training, review, processing and direction to the new hires for relocations. This centralization recommendation is comparable to and in line with assignment of this campus wide function with the other UC campuses.

Travel Services will take responsibility for reviewing the Academic Guideline to re-evaluate the accuracy against the various relocation policies. This audit states that this campus based guideline is more generous than system wide policies related to relocation, which is not allowable.

Travel Services will also review the types of exceptions to policy that have been approved. These miscellaneous expenses should not be reimbursed as exceptions to relocation policies. This audit demonstrates that there is a need to provide payment for additional expenses in order to secure a new employee. Therefore, a campus process and funding source will need to be defined to assist with the miscellaneous expenses that are not relocation related. This will require the campus to address paying for expenses for new hires that are not relocation related according to IRS Regulations and systemwide policies for relocation. Travel Services will work with departmental travel staff, Procurement, and the Budget office to define a process to support this hiring need.

This plan will be completed by January 31, 2018.