



Internal Audit Report

Chancellor's Expenses – G-45 Systemwide Audit

Report No. SC-13-06
December 2012

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I. EXECUTIVE SUMMARY

Internal Audit & Advisory Services (IAS) has completed an audit of the G-45 Chancellor's Expenses. This UC systemwide audit was conducted to determine the adequacy of financial reporting and key financial controls as identified in UC Business Finance Bulletin (BFB) G-45 *Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors*.

Overall, we found both G-45 reports to be complete, accurate, and in general compliance with policy. Processes were in place to ensure proper approval and accurate recording of expenses incurred by the chancellor.

However, there were a few departures from G-45 policy, as noted below, that were discussed with management and addressed during the course of the review:

- Events not funded by the Chancellor's budget were initially included in G-45 reporting, but removed when management was informed of a recent revision to G-45 policy requirements that these types of expenses no longer be reported.
- A required events log was not maintained during Fiscal Year 2011-2012 which resulted in a delay of the preparation of the Fiscal Year Expenses of the Chancellor report and submission to Financial Affairs later than the date required by the G-45. However no material consequences have been observed as the reports are now ready to be sent to UCOP when requested.

Additional detail on these specific issues is captured in III. Summary of Work Performed and Results.

II. INTRODUCTION

Purpose

The purpose of this audit was to review and evaluate the completeness and accuracy of the two financial reports required by G-45, the *Annual Report of Fiscal Year Expenses of the Chancellor* for Fiscal Year 2011-2012 and the *Annual Report of Taxable Expenses of the Chancellor* for the period November 1, 2011 through October 31, 2012 and the effectiveness of the approval process of the chancellor's expenses.

Background

In accordance with the reforms over executive compensation initiated in 2006 by the UC Office of the President, each campus is required by G-45 to report annually on the expenses of the chancellor associated with his or her official residence, and for other expenses, such as entertainment, travel and gift expenses that are related with his/her particular hospitality duties as a chancellor.

These reports address the appropriate use of funds available to chancellors in support of their official duties and address those expenses that may create additional taxable income for chancellors.

AT UCSC, the Office of Planning & Budget (P&B) is responsible for preparing the *Annual Report of Fiscal Year Expenses of the Chancellor*; the Office of the Chancellor is responsible for preparing the *Annual Report of Taxable Expenses of the Chancellor*. Once prepared, these reports are submitted to Financial Affairs review and several other principal officers' reviews before submission to the UC Office of the President.

In addition to preparing the taxable expenses report, the Chancellor's Office is responsible for accurately recording and coding all expenses regulated by G-45; ensuring that the appropriate approvals have been given; documenting events hosted by the chancellor and University House events; and monitoring back-up documentation.

Scope

The two G-45 reports reviewed were the *Annual Report of Fiscal Year Expenses of the Chancellor (July 1st, 2011 to June 30th, 2012)* and the *Annual Report of Taxable Expenses of the Chancellor (11/1/2011 to 10/31/2012)*.

We conducted interviews with employees from the Chancellor's Office, P&B and Financial Affairs. We reviewed the newly revised UC Policy G-45, actual reports, supporting documentation, report preparation methodology, and approval processes. We conducted limited testing with a focus on the accuracy of amounts reported, compliance with the G-45 policy and the UC Entertainment and Travel policies, appropriate approval levels and back-up documentation

III. SUMMARY OF WORK PERFORMED AND RESULTS

Work Performed	Results
Fiscal Year Expenses of the Chancellor – Review of P&B Preparation Workbook	
<p>Reviewed P&B report building procedures and their application to the process of expenses classification as required by G-45 and the identification of expenses to include in the report. Reviewed included and excluded expenses.</p>	<p>Error found due to a recent revision of UC G-45 policy. G-45 now requires that <i>“Only entertainment expenses funded by the budget of the Chancellor should be recorded under this account, whether hosted by the Chancellor or another individual or group”</i>.</p> <p>The workbook had been built including events not funded by the Chancellor’s budget as it was to be done in the previous years. P&B Business Manager promptly made the correction and updated P&B procedures; a new report was issued for Chancellor’s signature.</p> <p>No other issues of inaccuracy or lack of adherence to G-45 procedure were identified.</p>
<p>Conducted an initial review of all expenses in the workbook, with random verification using information provided in FIS Banner and CruzBuy. Prepared for detailed testing</p>	<p>29 transactions were selected for detail testing (General Maintenance, General Household, in and out of University House entertainment, hosted by the Chancellor or others, Travel, Gifts, AOC Expenses and Other Expenses). See Transactions Detail Testing Section.</p>
<p>Extracted data from an independent source to verify the accuracy and completeness of the entertainment and travel direct payments to Chancellor and Associate of the Chancellor (AOC) included in the workbook. The process was repeated for UCLA travel journals</p>	<p>Perfect matching between the two sources of data was found. All direct payments to the Chancellor for entertainment and travel and all Chancellor’s travel related journals extracted from independent source were found in the P&B workbook</p>
<p>Reviewed and clarified with the P&B Business Manager the details of the “Support Staff Expenses” calculation of the University House Manager salary, overtime pay and benefits.</p>	<p>The calculation was adequate and P&B Manager has added since an explanation for this particular calculation in her report building procedure.</p>
Fiscal Year Expenses of the Chancellor – Transactions Detail Testing	
<p>We tested all 29 transactions for correct approval. The requirement for approval of these transactions varied from one to sometimes four, if the Controller’s signature was necessary as per G-45 or if other units were involved.</p>	<p>We found correct approvals in 28 out of the 29 transactions. The one-time omission was a one-time error and was corrected.</p>
<p>We tested the 18 entertainment transactions for identification of the host.</p>	<p>All hosts were properly recorded</p>
<p>We did not perform testing on AOC expenses and the</p>	<p>No test performed</p>

<p>specific related required processing as there were no entertainment or travel expenses for the AOC in FY12</p>	
<p>We reviewed the accuracy of entertainment activity codes, the purpose of which is to allow to classify expenses according to G-45 request and to allow the required expenses only to be included</p>	<p>We found 4 activity codes out of 18 entertainment transactions, either missing or incorrect. This comes mainly from the fact that other units using the University House are not knowledgeable of the activity codes to use. The Office of the Chancellor’s staff is now stricter in its requirements for activity codes from other units using the University House. They have also updated their own procedure to code and document entertainment events.</p>
<p>Fiscal Year Expenses of the Chancellor – Review of Events Report</p>	
<p>This test is to verify that University House Events in the Fiscal Year Expense report have all been recorded by the Chancellor’s Office Staff in the G-45 required Event Log that is to include all events occurring in the Residence regardless of who is hosting or funding.</p>	<p>We could not perform this particular test this year as the Events Log has not been kept in the Fiscal Year 2011-2012. It seems that the Chancellor’s Office staff was not aware that this was a G-45 compliance item. In addition there was a misunderstanding/ assumption that the new on-line Entertainment Report Form (ERF) system would perform the recording of these events. Further, that year, the Office of the Chancellor had a 30% staff cut which had resulted in important work overload for already stressful work responsibilities. A new staff has been hired since and the Events Log is being kept since the start of Fiscal Year 2012-2013.</p> <p>The lack of an Event log delayed the preparation of the Fiscal Year Expenses of the Chancellor report and the report was submitted to Financial Affairs later than the date required by the G-45. However no material consequences have been observed as the reports are now ready to be sent to UCOP when requested.</p>
<p>Fiscal Year Expenses of the Chancellor – Chancellor’s Office Procedures</p>	
<p>We reviewed the two procedures created during the previous G-45 audit in 2010.</p> <ol style="list-style-type: none"> 1) Reimbursement and Tracking of the AOC expenses 2) University House Events Documentation 	<p>The procedure for reimbursement and tracking the AOC expenses is still relevant and did not need updating.</p> <p>The Chancellor’s Office staff has made the needed update to the University House Events Documentation procedure</p>
<p>We reviewed with the Chancellor’s Office staff the process of entertainment and travel approval for the chancellor and the AOC</p>	<p>The process is the same and the detailed testing showed that the Office of the Chancellor’s staff is applying it with consistency.</p>

Taxable Expenses of the Chancellor	
Met with the Chancellor's Office staff to review the elements of the taxable expense report	During Fiscal Year 2012, the Chancellor's Office maintained the same internal policy of "No personal use of University funds by the Chancellor" The Annual Report of Taxable Expenses of the Chancellor reports zero personal taxable amounts and is certified by the chancellor
Reviewed the quarterly "Report of Staff Time Devoted to Personal Services Performed for the Chancellor"	Every quarter, the University House Manager fills out such a report. No personal time was recorded in the document we reviewed, signed by the house manager and the chancellor.
Reviewed the yearly "Officer's Report of Personal Use of University-owned Equipment"	No personal use of equipment was reported and signed by the chancellor.
Reviewed the Chancellor's Office procedure for the preparation of the Taxable Expense report	This procedure is still relevant and did not need updating.
Reviewed the P&B workbook containing all expense transactions funded by the Chancellor's budget to identify potential personal expenses	The review of the P&B workbook of expenses and transactions did not reveal potential personal expenses for the Chancellor.