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August 13, 2015

Claude Steele
Executive Vice Chancellor and Provost

Executive Vice Chancellor and Provost Steele:

We have completed our assessment of the design and implementation of the process to gather and submit compensation information to the University of California (UC) Office of the President to facilitate their preparation of the Annual Report of Executive Compensation (AREC) for calendar year 2014.

Objective and Scope

The Office of Ethics, Compliance and Audit Services (ECAS) at UC Office of the President requested that audit functions at each campus assist management by evaluating the adequacy of the Senior Management Group (SMG) coordinator's process for ensuring the completeness and accuracy of the data reported to the UC Office of the President for inclusion in the calendar year 2014 AREC. Our scope included limited testing as to the completeness and accuracy of certain types of cash and non-cash compensation data collected through this process.

Procedures Performed

Our testing of completeness and accuracy of cash and non-cash compensation data included, but was not limited to

- interviews with the campus SMG coordinator;
- review of questionnaires and certifications on potentially compensable transactions completed by SMG and other employees subject to AREC reporting requirements;
- analysis of information compiled in the Senior Leadership Information System (SLIS); and
- analysis of information in campus financial and HR systems of record such as BFS and HCM.

Summary Conclusion

In planning and performing our advisory service, we considered the internal controls in the process to gather and submit reportable compensation information to the UC Office of the President. Our consideration of the internal controls were limited to the process of gathering and submitting reportable compensation to the UC Office of the President for the AREC and was not designed to identify all deficiencies in internal controls over reporting compensation. We

note that the design of the process used to compile income information for the AREC appeared to be similar to prior years, without significant or material process changes. Based upon our fieldwork performed, we conclude that the overall process design continues to be adequate to assure the accuracy and completeness of the 2014 report. We also note that, with the retirement of the current SMG coordinator and the transition of responsibilities to the staff of the Associate Executive Vice Chancellor and Provost, a new team will be responsible for the preparation and submission of AREC data for the 2015 reporting year. As in prior years, we expect to be asked to perform a similar review next year.

That being said, we did note two observations related to the execution of the reporting process for the 2014 report.

Completeness of Reportable Population

Campus individuals who meet the minimum compensation criteria set by the UC Office of the President each year are to be included as part of the reportable population on the AREC. Sufficient controls around the completeness of reporting should be implemented to ensure the complete population of individuals meeting this criteria are included in the campus reporting. As part of our review, we noted one instance where an individual was included in the AREC reportable population but did not meet the minimum compensation criteria for inclusion in the report. Upon discussion with the SMG coordinator, we understand that this individual initially appeared to meet the criteria for report inclusion, but upon closer analysis of his compensation there were some 2014 compensation transactions that should have been excluded as it related to an earlier period. Although management correctly identified the correct (lower) reportable compensation amount, the individual was included in the initial population reported to the UC Office of the President. This over-reporting error was subsequently corrected by management before the final data was compiled by the UC Office of the President. We have discussed with management reinforcing existing procedures to ensure the completeness of the population sent to the UC Office of the President so that neither over- or under-reporting occurs. Based upon these discussions, our assessment of inherent reporting risk, and our observation that the overall reporting process appears appropriately designed, we did not obtain a formal management response for this observation.

Review of Completed Questionnaires and Reconciliation with Other Data Sources

Part of the annual information gathering process for the AREC includes having all individuals subject to inclusion in the report complete a questionnaire called "University of California Potentially Compensable Transactions Certification". The purpose of this questionnaire is to identify expenses paid by the campus on behalf of the individual that could potentially qualify as personal in nature and therefore reportable non-cash compensation.

During our review of the questionnaires we identified one instance where an individual's disclosure of a potential compensable transaction (athletics tickets) was not included as non-cash compensation on his 2014 W-2 form. Upon our further inquiry, we learned that the SMG coordinator reviewed documentation from Intercollegiate Athletics that noted no personal use of tickets and therefore no non-cash compensation was reported. She also consulted with the administrative assistant for the SMG member. Our assessment of the disclosure on the questionnaire was that it was sufficiently ambiguous that inquiry directly with the SMG member

would probably have been the most direct means of dispensing of the potential discrepancy. As a result of our inquiry, the SMG coordinator subsequently confirmed with the individual that the use of these tickets was for business purposes only and therefore not compensable. We have discussed with management reinforcing existing procedures to ensure completeness of the questionnaire review, particularly when answers provided are potentially unclear or ambiguous. Based upon these discussions, our assessment of inherent reporting risk, and our observation that the overall reporting process appears appropriately designed, we did not obtain a formal management response for this observation.

Thank you for the opportunity to serve you.

Respectfully reported,

Wanda Lynn Riley
Chief Audit Executive

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