

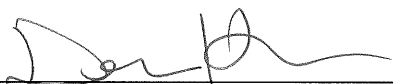


# AUDIT AND ADVISORY SERVICES

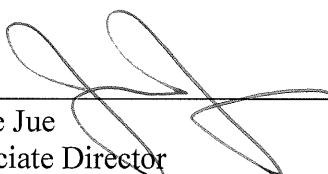
Chancellor's Expenses  
(BFB-G-45) – Office of the Chancellor  
Audit  
Project No. 14-638A

December 15, 2014

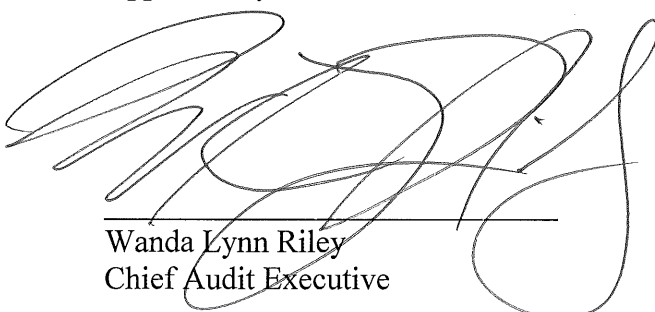
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BERKELEY, CALIFORNIA 94720-1170

December 15, 2014

Chancellor Nicholas Dirks:

We have completed our audit of annual reporting on Chancellor's expenses as required by university policy Business and Finance Bulletin (BFB) G-45 and as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observations with management action plans are expounded upon in the accompanying report. This report (14-638A) covers audit observations specifically related to the general process of preparing, reviewing, and approving the *Annual Report of Fiscal Year Expenses for the Chancellor* and *Annual Report of Taxable Expenses of the Chancellor* by the Office of the Chancellor.

In addition, during the reporting period, the campus had a change in leadership. Audit observations specifically related to former Chancellor Robert Birgeneau's expenses, who stepped down as chancellor on May 31, 2013, and current Chancellor Nicholas Dirks' expenses are covered in a separate audit reports (14-638B [Birgeneau] and 14-638C [Dirks]). All three audit reports should be considered together for our collective observations related to the Annual Report of Fiscal Year Expenses and Annual Report of Taxable Expenses for the 2012-2013 reporting period.

Please destroy all copies of draft reports and related documents. Thank you to the staff of Office of the Chancellor and the Controller's Office for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley  
Chief Audit Executive

cc: Associate Chancellor Linda Morris Williams  
Associate Chancellor and Chief of Staff Nils Gilman  
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca  
Assistant Vice Chancellor and Controller Delphine Regalia  
Deputy Associate Chancellor and Chief Operations Officer Wanda Ellison Crockett  
Principal Financial Analyst Karen Moses  
Deputy Chief Ethics, Risk and Compliance Officer Barbara VanCleave Smith

**University of California, Berkeley  
Audit and Advisory Services  
Chancellor's Expenses (BFB-G-45)  
(Office of the Chancellor)**

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# OVERVIEW

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## Executive Summary

The purpose of our audit was to complete a review of the campus's *Annual Report of Fiscal Year Expenses for the President/Chancellor* (Annual Report of Fiscal Year Expenses) for the fiscal year July 1, 2012 through June 30, 2013 as well as the *Annual Report of Taxable Expenses of the President/Chancellor* (Annual Report of Taxable Expenses) for the reporting period November 1, 2012 through October 31, 2013 (collectively, the 2013 reports), both of which are required under university policy Business and Finance Bulletin G-45: Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors (BFB-G-45), for completeness and accuracy relative to amounts recorded in the campus general ledger and other supporting books and records.

This report (14-638A) covers audit observations specifically related to the general process of preparing, reviewing, and approving the Annual Report of Fiscal Year Expenses and Annual Report of Taxable Expenses by the Office of the Chancellor.

In addition, during the reporting period, the campus had a change in leadership. Audit observations specifically related to former Chancellor Robert Birgeneau's expenses, who stepped down as Chancellor on May 31, 2013, and current Chancellor Nicholas Dirks' expenses are covered in separate audit reports (14-638B [Birgeneau] and 14-638C [Dirks]). All three audit reports should be considered together for our collective observations related to the Annual Report of Fiscal Year Expenses and Annual Report of Taxable Expenses for the 2012-2013 reporting period.

Based upon our audit procedures, we observe that the process of preparing, reviewing, and approving the Annual Report of Fiscal Year Expenses and Annual Report of Taxable Expenses was not operating effectively for the 2012-2013 reporting period to ensure completeness and accuracy of reporting.

Specifically, we observed the following related to the report preparation, review, and approval process.

The majority of the category lines items on the Annual Report of Fiscal Year Expenses, representing total reportable expenses incurred during the reporting period, do not reconcile to the recorded transactions tracked by activity codes in the general ledger. Management represents that the differences are attributed to initial misclassification of expense categories due to incomplete supporting documentation for expenses. We reviewed the methodology around adjustments to the misclassified activity codes and observe that the methodology behind reconciling the travel expenses line item in the Annual Report of Fiscal Year Expenses was not performed consistently. We were unable to validate the population of reconciling items between the general ledger and amounts reported related to travel on the Annual Report of Fiscal Year Expenses.

Management agrees with the observations and has proposed action plans that, if implemented, should reasonably address the observations noted herein.

## **Source and Purpose of the Audit**

The purpose of our audit was to complete a review of the campus's Annual Report of Fiscal Year Expense for the fiscal year July 1, 2012 through June 30, 2013 as well as the Annual Report of Taxable Expenses for the reporting period November 1, 2012 through October 31, 2013 (collectively, the 2013 reports), both of which are required under university policy BFB G-45: Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors, for completeness and accuracy relative to amounts recorded in the campus general ledger and other supporting books and records.

## **Scope of the Audit**

The scope of our review included reportable expenses and housing provision associated with the official duties of the Chancellor that are required to be tracked and reported according to BFB-G-45. The reporting period for the Annual Report of Fiscal Year Expenses is the university fiscal year; whereas the reporting period for the Annual Report of Taxable Expenses covers the twelve months from November to October.

The campus reporting period for both 2013 reports covered two Chancellors as Chancellor Birgeneau stepped down on May 31, 2013 and Chancellor Dirks assumed the position on June 1, 2013. Expenses associated with their official duties were reported separately by the campus, resulting in two Annual Reports of Fiscal Year Expenses and two Annual Reports of Taxable Expenses for the 2012-2013 reporting periods.

Our audit procedures included, but were not necessarily limited to, the following:

- obtaining copies of the 2013 reports, with attachments, for Chancellors Birgeneau and Dirks as signed by each;
- obtaining an understanding of management's process to collect and record amounts reported on the 2013 reports;
- independently extracting expense information from the general ledger related to reportable categories;
- comparing expense information from the general ledger with that reported on the 2013 reports and inquiring with management on any differences including the root cause;
- assessing the overall accuracy and completeness of the amounts reported on the 2013 reports; and
- assessing whether reportable deficiencies or significant deficiencies existed in management's process and internal controls related to the preparation, review, approval, and submission of the 2013 reports.

## **Background Information**

University policy BFB G-45 states that the university intends "to comply with Internal Revenue Service regulations concerning the provision of housing and payment of expenses associated with the official duties of the President and Chancellors." The policy requires each campus to use standardized expense categories in their general ledger to track expenses related to these reportable categories. The campus has a range of Chartfield 1 and Chartfield 2 values in the campus general ledger system to track reportable expenses by category. Each campus must

prepare an Annual Report of Fiscal Year Expenses and Annual Report of Taxable Expenses using templates provided in the policy.

### **Summary Conclusion**

Based upon our audit procedures, we observe that the process of preparing, reviewing, and approving the Annual Report of Fiscal Year Expenses and Annual Report of Taxable Expenses was not operating effectively for the 2012-2013 reporting period to ensure completeness and accuracy of reporting.

Specifically, we observed the following related to the report preparation, review, and approval process.

The majority of the category lines items on the Annual Report of Fiscal Year Expenses, representing total reportable expenses incurred during the reporting period, do not reconcile to the recorded transactions tracked by activity codes in the general ledger. Management represents that the differences are attributed to initial misclassification of expense categories due to incomplete supporting documentation for expenses. We reviewed the methodology around adjustments to the misclassified activity codes and observe that the methodology behind reconciling the travel expenses line item in the Annual Report of Fiscal Year Expenses was not performed consistently. We were unable to validate the population of reconciling items between the general ledger and amounts reported related to travel on the Annual Report of Fiscal Year Expenses.

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## SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

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### Preparation and Approval of Travel and Entertainment Expenses

#### Observation

According to university policies BFB G-28 Travel Regulations, and BFB BUS-79 Expenditures for Business Meeting, Entertainment, and Other Occasions, the campus Controller's Office is responsible for approving the Chancellor's travel and entertainment expenses. Based upon inquiry with the Chancellor's Immediate Office and corroborating inquiry with the former campus chief of staff, we understand that the Chancellor's expenses consist primarily of travel and entertainment charges incurred using two corporate credit cards. The Chancellor's Immediate Office tracks travel and non-University House entertainment expenses using the monthly travel and entertainment spreadsheet detailing the bona fide business purpose for the expense, supporting documentation, and funding sources related to the incurred expenses. Additionally, University House employees track all house entertainment expenses using events packets and an events log which details the bona fide business purpose for the expense, supporting documentation, and funding sources.

Information provided to the controller regarding the Chancellor's travel and entertainment expenses should include accurate documentation and the necessary supporting documents to assist her timely review. In addition to being used for the controller's review, these deliverables are used as support for the BFB-G-45 reporting process and should reconcile to the related expenses categories on the Annual Report of Fiscal Year Expenses.

Based upon our audit testing related to the preparation of the Chancellor's monthly travel and entertainment spreadsheet, we noted the controls related to documenting the expense description, business purpose, and correct funding source were not operating effectively during the BFB-G-45 reporting period. As a result, expenses were frequently misclassified into the wrong activity (chartfield) code and had to be subsequently corrected once supporting documents, business descriptions, and funding sources were obtained. Additionally, we noted the Chancellor's travel and entertainment expenses were not being approved by the controller in a timely manner. Chancellor Dirks' expenses have not been approved by the controller, as required by policy, for the period June 2013 through June 2014 (the end of our fieldwork period). Lastly, we were unable to fully reconcile the expenses reported in the monthly travel and entertainment spreadsheets to the Annual Report of Fiscal Year Expenses and the campus general ledger.

In addition, in reviewing the process for the preparation of the University House entertainment events packets<sup>1</sup> and events log, we noted the controls related to documenting the expense description, business purpose, and correct funding source were not operating effectively during FY 2013 or FY 2014. Per discussions with management, we understand that events packets and the event list were not consistently prepared in a timely manner and often lacked the information needed by the controller to perform a timely review. Additionally, as a supporting document for

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<sup>1</sup> The entertainment events packets also have not been approved by the controller for the period June 2013 through June 2014.

the Annual Report of Fiscal Year Expenses, we noted the events log did not reconcile to the Annual Report of Fiscal Year Expenses or the campus general ledger.

These control deficiencies had been previously identified in FY 2012 in our prior audit and were attributed to the departure of certain individuals from the Chancellor's Office in early 2012. Management represented that these personnel departures led to a process breakdown that has not yet been fully addressed.

### **Management Response and Action Plan**

The Chancellor's Immediate Office acknowledges the observation noted herein and has made progress towards strengthening the internal controls. In the spring of 2014, the associate chancellor created and recruited a new deputy associate chancellor/chief operations officer (COO) charged with providing leadership of improving overall business practices, policies and controls for the Chancellor's Office. During the reporting period, the transition in staffing and lack of training primarily attributed to a breakdown in the process.

The Chancellor's Immediate Office Business Service Unit reports to the deputy associate chancellor/COO, who has made several changes to the internal controls. The focus has been to improve the accuracy and appropriateness of transactions and reporting of Chancellor's funds on a consistent basis. Management has addressed staffing and training deficiencies to ensure the preparation and approval of workflow are handled sufficiently; staff are now further trained, and the internal process has been vetted and clarified. This includes conducting the reconciliation review and performing the appropriate compliance review within 30 days following the close of the billing statement.

Also, further support and guidance has been provided to staff that manage events at University House. Specifically, specialized assistance with the preparation of the events log aimed at continuous improvement in this area is part of management's on-going operating FY 2015 goals.

## **Presentation and Disclosure of BFB-G-45 Fiscal Year Annual Expenses**

### **Observation**

Based upon our discussions with management and analysis of general ledger transactions, we observe that the Chancellor's Immediate Office uses general ledger Chartfield 1 and Chartfield 2 fields as unique activity codes to identify and track the categories of expenses associated with the official duties of the Chancellor that are defined in the BFB-G-45 policy. At the end of every fiscal year, the Chancellor's Immediate Office uses these unique activity codes to extract information from the campus general ledger to prepare the Chancellor's Annual Report of Fiscal Year Expenses.

Based upon our audit testing, we note that the majority of the category lines items on the report, representing total reportable expenses for that category incurred during the reporting period, do not reconcile to the recorded transactions tracked by activity codes in the general ledger. Management represents that the differences in the general ledger activity by activity codes and totals reported on the Annual Report of Fiscal Year Expenses is attributed to initial misclassification of expense categories due to incomplete expense support being submitted. Per



discussion with management, the misclassified expense activity codes are not corrected in the general ledger, but are manually adjusted in the preparation of the Annual Report of Fiscal Year Expenses. We reviewed the methodology around adjustments to the misclassified activity codes and found that the methodology behind reconciling the travel expenses line item in the Annual Report of Fiscal Year Expenses to be inconsistent. We were unable to determine all the reconciling items between the general ledger and the Annual Report of Fiscal Year Expenses for the travel line item and therefore did not gain comfort of the accuracy of this presented expense amount on Annual Report of Fiscal Year Expenses.

Management represented that the difficulty in applying an expense to the correct activity code was attributed to personnel departures in FY 2012 that lead to a process breakdown that has not yet been fully addressed in the above mentioned observation relating to the preparation of the travel and entertainment report. The Chancellor's Immediate Office uses the information and support contained in the travel and entertainment spreadsheet to correctly categorize the respective activity codes for the Annual Report of Fiscal Year Expenses. However, the control deficiency noted in the previous observation related to the preparation of this spreadsheet has created a control deficiency in the application of the Chancellor's activity codes required for complete and accurate BFB-G-45 reports.

#### **Management Response and Action Plan**

Management agrees with the observations.

The front office personnel that completes the travel and entertainment report have been further trained on BFB-G-45 applicable policies and provided a matrix of chart strings and flex codes to reduce the number of cost transfers by the Chancellor's Immediate Office Business Services Unit. The travel and entertainment report is reviewed for compliance with policy and submitted to the Controller's Office with supporting documentation monthly.

The Chancellor's Immediate Office and the Controller's Office have worked closely during FY 2013-14 to enhance the preparation and approval process for travel and entertainment expenditures. The collaboration with the Controller's Office on the Chancellor's travel and entertainment expense report has been significantly revised to include all relevant fields of information to serve as a stand alone auditable document. These efforts have vastly improved the overall understanding and compliance with BFB-G-45 policy, practices and accounting standards.