

UC MERCED AUDIT AND ADVISORY SERVICES

April 3, 2017

To: Luanna Putney – Associate Chancellor and Senior Advisor to the Chancellor  
Brian Powell – Associate Vice Chancellor of Human Resources

Subject: Executive Compensation Audit

Ref: Report No. M17A004

UC Merced Internal Audit has completed the annual audit of executive compensation that covered the Annual Report of Executive Compensation (AREC) for 2016 and the Annual Reports of Expenses for the Chancellor which are required by UC Policy G-45.

We appreciate the assistance we received from the campus Senior Management Group Coordinator and Business and Financial Services staff during the audit.



Todd Kucker  
Director of Internal Audit

Attachment

cc: Interim Senior Vice President Lohse  
Chancellor Leland  
Vice Chancellor Reese  
Assistant Vice Chancellor and Controller Riley  
Director Bustos  
Associate Director Kinsman  
Consultant Aldama  
UC Merced Campus Audit Committee

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

Executive Compensation  
Report No. M17A004

April 3, 2017

Work completed by:  
Brandi Masasso – Internal Audit

## **Purpose and Objectives**

Internal Audit has completed a review of executive compensation at UC Merced. This audit was part of the Fiscal Year 2016 – 2017 audit plan. This review is completed annually at all UC campuses. The purpose was to verify that reported executive compensation information was accurate and complete. The audit objectives were to:

- Evaluate processes in place to determine if they are sufficient to ensure accuracy, completeness, and timely preparation of the Annual Report on Executive Compensation (AREC) and the Annual Reports of Expenses of the Chancellor;
- Evaluate and verify W-2 reconciliations are prepared and completed accurately and timely; and,
- Review travel and entertainment expenditures by senior management to determine adequacy and compliance with UC Policy G-28 *Travel Regulations* and BUS-79 *Expenditures for Entertainment, Business Meetings, and Other Occasions*.

## **Background**

### Annual Report on Executive Compensation

The University of California is legally obligated to present the compensation of its senior managers to the state legislature and to the public. This information is annually disclosed on the Annual Report of Executive Compensation (AREC).

### Annual Reports of Expenses of the Chancellor

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.

BFB G-45 *Implementing Requirements of Expenses Incurred in Support of Official Responsibilities of the President and Chancellors* 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.

## **Scope of Testing**

The scope of the work included a review of the following compensation items:

### *Annual Report on Executive Compensation for Calendar Year 2016*

The AREC provides detailed compensation data on the Senior Management Group (SMG) population and non-SMG's with annual income over \$304,000 (threshold established for 2016).

Total compensation is defined as salary and other cash payments made to the employee, one-time reimbursements made to, or on behalf of, the employee, and any benefits and perquisites. This report is presented to the Regents for review and approval.

*Annual Report of Fiscal Year Expenses of the Chancellor*

UC Policy G-45 *Implementing Requirements of Expenses Incurred in Support of Official Responsibilities of the President and Chancellors* requires that all amounts paid or accrued for the current fiscal year, whether paid on behalf of, or reimbursed directly to, the officer, be reported.

*Annual Report of Taxable Year Expenses of the Chancellor*

UC Policy G-45 requires that services or expenses incurred in the operation and staffing of the University residence occupied by the Chancellor, which are of personal benefit to the Chancellor, be reported as they are taxable to the officer. The reporting period for the Annual report is November 1 of the prior year through October 31 of the current year and included two additional forms as listed below:

- “Report of Staff Time Devoted to the Personal Services for the Chancellor” is a certification by a University employee certifying the percentage of time spent providing services as a benefit of the Chancellor personally. This form is reviewed and signed by the University employee’s direct supervisor and the Chancellor as evidence of review and approval.
- “Officer’s Report of Personal Use of University-Owned Equipment” is a detailed analysis of University-owned property used by the Chancellor for personal use at her University provided residence. This form is filled out and signed by the Chancellor.

The scope of the audit covered activities occurred in the calendar year 2016 for the AREC, Fiscal Year 2015 – 2016 for the fiscal report, and November 1, 2015 to October 31, 2016 for the taxable report.

*Review of the W-2 Reconciliation packages prepared by the Payroll Office*

This includes a detailed reconciliation of the 2016 earnings of each of the SMG employees and other applicable employees whose compensation (over \$304,000) must be disclosed in the annual report to the Regents.

*Senior Management Group Travel and Entertainment*

We selected a sample of travel and entertainment expenditures during Fiscal Year 2015 – 2016 that included expenditures by all of the SMG employees to verify compliance with UC policies.

**Conclusion**

From our audit, we concluded that processes for the preparation of the AREC and Annual Reports of Expenses of the Chancellor are adequate to ensure accuracy and completeness. We also concluded that SMG travel and entertainment expenses are properly reviewed for compliance with UC policies. We did not identify issues during the review.