

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA  
OFFICE OF ETHICS, COMPLIANCE AND AUDIT SERVICES



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Alexander Bustamante  
SENIOR VICE PRESIDENT  
CHIEF COMPLIANCE AND AUDIT OFFICER

October 3, 2018

**EXECUTIVE DIRECTOR PLUZDRAK  
DIRECTOR NIESS**

**RE: Final Report Project No. P18A004: UCOP Executive Compensation**

Attached is a copy of the final report for: Audit Services Project No. P18A004 UCOP Executive Compensation. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: [matthew.hicks@ucop.edu](mailto:matthew.hicks@ucop.edu)).

A handwritten signature in black ink, appearing to read "Matt Hicks".

Matt Hicks  
Systemwide Deputy Audit Officer

Attachment

cc: Senior Vice President Bustamante  
Executive Vice President Nava  
Executive Director Kalmijn  
Systemwide Audit Manager Cataldo  
Team Lead Vrizuella  
Systemwide Principal Auditor Seaborn  
Compensation Analyst Aldrete

UNIVERSITY OF CALIFORNIA  
OFFICE OF ETHICS, COMPLIANCE AND AUDIT SERVICES

UCOP EXECUTIVE COMPENSATION  
Audit Project No. P18A004  
August 2018

Work Performed by:  
Systemwide Principal Auditor Seaborn

Work Reviewed by:  
Systemwide Audit Manager Cataldo  
Systemwide Deputy Audit Officer Hicks

## **Executive Summary**

### **Introduction and Background**

As part of the University of California Office of the President (UCOP) 2017 – 2018 fiscal year internal audit plan, Internal Audit performed an audit of Executive Compensation at UCOP.

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

- Annual Report on Executive Compensation for Calendar Year 2017 (AREC): The AREC provides detailed compensation related data on the senior management group (SMG) population and non-SMGs with annual income over \$310,000 (threshold established for 2017). Total compensation is defined as salary and other cash payments made to the employee, one time reimbursements made to the employee 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 President for Fiscal Year 2016-17: Business and Finance Bulletin G-45 – Implementing Requirements on 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 the officer or reimbursed directly to the officer, be reported.
- Annual Report of Taxable Expenses of the President for the 12 months ending October 31, 2017: Business and Finance Bulletin G-45 requires that services or expenses incurred in the operation and staffing of the University residence occupied by the President/Chancellor, which are of personal benefit to the President/Chancellor, be reported as they are taxable to the officer. The reporting period for this annual report is November 1 of the prior year through October 31 of the current year (November 1, 2016 – October 31, 2017).
- The President’s 2017 travel and entertainment expense reimbursements.

### **Objectives:**

The audit objectives were to:

- Evaluate current processes to determine if they are sufficient to ensure the accuracy, completeness, and timely preparation of the AREC, including the process for reconciling income figures obtained from the UCLA COGNOS data system with W-2 reportable income amounts from the UCPath System;
- Review the Annual Report of Fiscal Year Expenses of the President to ensure that it has been prepared in accordance with Business and Finance Bulletin G-45;

- Review the Annual Report of Taxable Year Expenses of the President to ensure that it has been prepared in accordance with Business and Finance Bulletin G-45;
- Evaluate the President's 2017 travel and entertainment reimbursements to assess compliance with UC policies, including UC Policy G-28 – Travel Regulations.

#### **Audit Procedures:**

1. Testing for AREC completeness:

Since the AREC should include all UCOP Senior Management Group (SMG) employees, as well as non-SMG UCOP employees whose income (including incentive, relocation and other non-salary income) for the 2017 calendar year exceeded \$310,000, Internal Audit reviewed the 2017 AREC Report and reconciled its list of employees with UCPath payroll data. This review was performed to ensure that all UCOP SMG employees (identified by payroll code) and all UCOP employees who earned at least \$310,000 in 2017 were included in the 2017 AREC report with a valid certification.

2. Reviewing procedures for reconciling reporting income figures on the initial AREC Report with reportable W2 income figures:

Internal Audit reviewed UCOP Local Human Resources procedures for reconciling AREC report eligible income data obtained from UCLA's COGNOS system, which is used by UCOP Local HR to generate initial AREC report income data; with reportable W-2 income data obtained from the UCPath payroll system.

3. Reviewing the Annual Report of Fiscal Year Expenses of the President:

Internal Audit reviewed the Fiscal Year 2016-17 G-45 Report, which categorizes and lists expenses pertaining to the President's residence and business meetings for FY 16-17, and confirmed that it was prepared in accordance with Business and Finance Bulletin G-45. This included a review of each category of reportable expenses and the reconciliation of a sample of ten high dollar amount expenses listed in the G-45 report with figures from the general ledger.

4. Reviewing the Annual Report of Taxable Year Expenses of the President

Internal Audit reviewed the Annual Report of Taxable Year Expenses of the President for 2017 for compliance with the procedures outlined by Business and Finance Bulletin G-45, confirming that appropriate sign offs were in place and verifying percentages of staff and equipment expenses deemed by the President and Presidential staff for personal use.

5. Reviewed a sample of the President's 2017 travel and entertainment reimbursements and tested for compliance with applicable UC travel and entertainment policies. This included the reconciliation of a sample of the ten highest dollar amount expense reports with general ledger figures and supporting documentation such as receipts and itineraries.

## **Conclusion**

In general, the processes in place for the preparation of the AREC, the Annual Report of Fiscal Year Expenses of the President, and the Annual Report of Taxable Year Expenses of the President were sufficient to ensure the reports are accurate and complete. Additionally, our review of the President's travel expenses found reported expenses to be in compliance with UC Travel Policy G-28.

However, our review identified improvement opportunities for the AREC calculation and reconciliation process used by UCOP Local HR.

## **Opportunities for Improvement and Action Plans**

### **1. The use of the COGNOS report to calculate AREC income figures leads to inaccuracies.**

Currently, UCOP Local Human Resources calculates the initial annual AREC income figures using data obtained from the UCLA's COGNOS report which obtains its source data from the UCPATH system.

The use of the COGNOS report to calculate AREC report income figures is problematic, as its data is often inaccurate. Per UCOP Local Human Resources, when it compared COGNOS income figures for 2017 AREC eligible employees, they did not match UCPATH figures for the same employees in 54 of 58 instances. UCOP Local Human Resources noted that these discrepancies likely occurred because the data from COGNOS often includes incorrect line item payments or fails to include retroactive payments paid to employees. For 2017 data, as a result of the incomplete or incorrect figures prevalent for COGNOS income data, in each instance where a discrepancy occurred, UCOP local Human Resources relied upon figures obtained from UCPATH to complete the Final AREC, disregarding the figures indicated by the COGNOS report. The fact that these discrepancies occur so frequently suggests that the COGNOS report should not be used as a primary data source for the AREC calculation.

#### ***Action Plan***

*The Executive Director, UCOP Local Human Resources, in coordination with Director of Executive Compensation, will modify existing procedures for pulling data for the initial AREC calculation such that income data used to populate the AREC is obtained directly from UCPATH, removing the UCLA COGNOS report as the primary data source.*

Target Date: April 30, 2019

### **2. The current reconciliation process for AREC income figures should be improved.**

As previously discussed, UCOP Local Human Resources uses a COGNOS report to calculate AREC data. Since COGNOS income data for UCOP employees is sourced from the UCPATH System, relying upon a comparison of COGNOS and UCPATH system income data to reconcile

income figures for AREC employees does not constitute a true reconciliation. The AREC preparation process would benefit from an independent review to ensure that the appropriate data fields are obtained consistently from UCPath. This independent review should also include a sampling of non-standard and/or complex situations that may be more complicated and subject to greater error. Examples of these situations could include the following:

- Individuals who served as SMG employees on an interim basis for part of the calendar year
- Individuals who transferred from another position or another campus to a UCOP AREC-eligible position
- Individuals who received relocation assistance, and
- Individuals who spent part of the calendar year on a non-paid status

***Action Plan:***

*The Executive Director, UCOP Local Human Resources, in coordination with Director of Executive Compensation, will revise the current AREC reconciliation/verification procedures to include an independent review of the report preparation process and a sampling of final income calculations for employees whose income sources during the calendar year included non-standard and/or more complex inputs.*

Target Date: April 30, 2019