



Internal Audit Report

Annual Report on Executive Compensation (AREC) Systemwide Audit

Report No. SC-17-09
May 2017

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I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has reviewed UCSC's *Annual Report on Executive Compensation* (AREC) for 2016. This UC systemwide audit was conducted to evaluate and determine the completeness and accuracy of executive compensation reporting to UCOP.

Overall, the AREC report was found to be complete, accurate, and in compliance with policy. Processes were in place to ensure the accurate recording of the AREC members' compensation and proper certification of accompanying documents.

A summary of work performed and detailed results is described in Section III. Summary of Worked Performed and Conclusions. There are no Management Corrective Actions identified or required as a result of our review

II. INTRODUCTION

Purpose

The purpose of this audit was to review and evaluate the completeness and accuracy of the *Annual Report on Executive Compensation* (AREC) for calendar year 2016.

Background

In accordance with the reforms over executive compensation initiated in 2006 by the UC Office of the President (UCOP), each campus is required to report annually on compensation paid to executives. The AREC is a report based on data in the Senior Leadership Information System (SLIS). The SLIS database is hosted by UCOP and is available to each campus via web interface. The format and content of the AREC report is set by UCOP. Each year UCOP issues a letter prescribing the criteria for selection of the executives appearing in the AREC report. In 2016, the UC Santa Cruz AREC population was the 10 member Senior Management Group (SMG).

At UCSC, the responsibility for preparation of the AREC report resides with the Office of the Executive Vice-Chancellor and Campus Provost (EVC). In the EVC Office, the SMG coordinator is also responsible for the senior leadership recruitment process, and therefore is aware of all personnel actions for the SMG members.

Scope

The scope of the audit included:

- A review of the AREC report for the 2016 calendar year (January 1st, 2016 to December 31st, 2016) as submitted to UCOP.
- A review of two additional forms: the *Compensation Summary* and the *Potentially Compensable Transactions Individual Certification* (PCT) to ensure that both forms have been filled out and certified by each of the AREC members. These two forms are sent to UCOP attached to the AREC report signed by the Chancellor.

We conducted interviews with the EVC Office, the General Accounting Office and the Payroll Office. We reviewed executive employees' AREC documents packet, and the SMG coordinator's packet sent by UCOP for directives regarding the certification process of the 2016 AREC report submission. We cross-verified the accuracy of the AREC population and the compensation shown for each of its members. We also reviewed all *Compensation Summaries* and PCTs for certification and congruence with the data shown on the AREC report.

III. SUMMARY OF WORK PERFORMED AND RESULTS

Interview with SMG Coordinator – Review of Responsibilities	
Work Performed	Results
Reviewed the requirements sent by UCOP for the 2016 AREC report.	The SMG coordinator position and responsibility for the AREC report are with the EVC Office for 2016.
Reviewed the SMG coordinator responsibilities for possible changes or new challenges.	The SMG coordinator also manages the accountability of the senior leadership recruitment process. This places the SMG coordinator in a position to know of any senior leadership personnel actions.
Accuracy of Report Population	
Work Performed	Results
Reviewed the selection process for the AREC population.	The AREC population for 2016 for all campuses included SMGs and persons with a salary above this year compensation threshold of \$304K. (Note that academics have been removed from the AREC population since 2010).
Reviewed the selected AREC population list against campus administrative and academic org charts (for years 2015, 2016 and the beginning of 2017 to ensure that all members of the SMG were included.	All appropriate senior officers were included in the AREC list. At UCSC, there were 10 administrative SMG employees reported on the SMG listing.
Reviewed the AREC population against the audited 2014 AREC listing	Found congruency with the prior audited report given the changes in senior officers in 2015 and 2016.
Reviewed the selected AREC population list against a list of campus top earners to ensure that no “non SMG” had been mistakenly excluded.	The only non-SMG top earners were academics, therefore not to be included in the AREC report. We confirmed with reasonable assurance that the list of AREC members was complete and accurate.
Accuracy of Compensation Data: Salaries & Vendors Expenses	
Work Performed	Results
Reviewed the compensation for each AREC member for calendar year 2016 to verify the different types of compensation received by each of them.	Compensation paid each AREC member was traced to the AREC report. This included compensation types other than the annualized base salary, such as auto and house relocation allowances.
Reviewed direct payments made to the AREC members during the year to ensure all reportable payments were included in the AREC report.	We did not identify any direct payments that could have been counted as compensation. There were no reimbursed moving expenses for new SMG members in 2016.

Accuracy of Compensation Data: W-2 Reconciliation Performed by the Payroll Office	
Work Performed	Results
Obtained W-2 reconciliations performed by Payroll Office for each of the AREC executives.	The W-2 reconciliations performed by the Payroll Office were all found to be accurate.
Compensation Summaries and Potentially Compensable Transactions Individual Certification	
Work Performed	Results
Reviewed all Compensation Summaries for accuracy and proper certification.	All Compensation Summaries were found to be accurate and congruent with the AREC report figures and properly signed and dated by each of the AREC executives.
Reviewed all PCT questionnaires for proper certification and possible additional documentation.	All PCT questionnaires were found to be properly filled out, dated and signed by the AREC executives, with the exception of Allison Galloway who went on sabbatical as of January 1, 2017 as noted in the AREC report. The Chancellors Office advised UCOP and received their advice to note the sabbatical in the AREC report. Overall, reasonable assurance of the accuracy and completeness of the AREC report was obtained and communicated to the SMG coordinator.