



UCSB Audit and Advisory Services
Internal Audit Report

**Executive Compensation
Chancellor's Expenses and Travel & Entertainment Review**

May 10, 2017

Performed by:

Antonio Manas-Melendez, Principal Auditor
Laurie Liao, Staff Auditor

Approved by:

Jessie Masek, Acting Director

Report No. 08-17-0013

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AUDIT AND ADVISORY SERVICES
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May 10, 2017

To: Julie Luera, Business and Finance Manager
Office of the Chancellor

Re: **Executive Compensation: Chancellor's Expenses and Travel & Entertainment Review
Audit Report No. 08-17-0013**

As part of the 2016-17 annual audit services plan, Audit and Advisory Services conducted an audit of the Chancellor's expenses. Enclosed is the audit report detailing the results of our review.

The purpose of this review was to ensure that the *2015-16 Annual Report of Fiscal Year Expenses of the Chancellor* (Appendix A) and the *Annual Report of Taxable Expenses of the Chancellor* (Appendix B) were prepared in compliance with University of California (UC) Business and Finance Bulletin G-45, *Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors* (BFB G-45). We also reviewed travel and entertainment expenses submitted by the Chancellor to ensure they complied with UC policies and procedures.

The scope of the review included the Chancellor's expenses incurred during the period of July 2015 through October 2016.

Based on the results of the work performed within the scope of the audit, the Office of the Chancellor properly prepared both Appendix A for fiscal year 2015-16 and Appendix B. We also found that the Office of the Chancellor has established overall effective internal controls over the collection and reporting of the Chancellor's expenses. However, we identified two transactions for a total amount of \$4,196 that should have been included in the calculation of Appendix A. The Business and Finance Manager explained that this oversight may have occurred due to preparing the report immediately upon starting her position.

Travel and entertainment expenses incurred by the Chancellor comply with UC policies and procedures.

We sincerely appreciate the cooperation and assistance provided by you and the Chancellor's staff during the review. If you have any questions, please feel free to contact me.

Respectfully submitted,

A handwritten signature in blue ink that reads "Jessie Masek".

Jessie Masek
Acting Director
Audit and Advisory Services

Julie Luera
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Enclosure

cc: Chancellor Henry Yang
Vice Chancellor Administrative Services Marc Fisher
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer John Lohse
Stacey Janik, Senior Executive Assistant and Director of Communications, Office of the Chancellor
Jim Corkill, Controller and Director, Business and Financial Services
Leslie Griffin, Associate Director, Business and Financial Services

PURPOSE

The purpose of this review was to ensure *that the Annual Report of Fiscal Year Expenses of the Chancellor* (Appendix A) and *the Annual Report of Taxable Expenses of the Chancellor* (Appendix B) were prepared in compliance with University of California (UC) Business and Finance Bulletin G-45, *Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors* (BFB G-45). We also reviewed travel and entertainment expenses submitted by the Chancellor to ensure they complied with UC policies and procedures.

This audit is part of the fiscal year 2016-17 audit services plan of Audit and Advisory Services.

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the review included the Chancellor's expenses incurred during the period of July 2015 through October 2016.

We gained an understanding of relevant UC policies and UC Santa Barbara (UCSB) processes for accumulating and reporting the Chancellor's expenses, reviewed Appendix A and Appendix B to ensure they were complete and prepared correctly in compliance with applicable policies, and performed limited testing of general expenses. We also reviewed other selected expenses to ensure the completeness of Appendix A. Additionally, travel and entertainment expenses incurred by the Chancellor were reviewed to ensure compliance with UC policies and procedures, including Business and Finance Bulletin G-28, *Policy and Regulations Governing Travel*, and Policy BUS-79, *Policy on Expenditures for Business Meetings, Entertainment, and Other Occasions*.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

BACKGROUND

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.

Additionally, Chancellors are provided with administrative funds to supplement their departmental budgets. Administrative funds are provided by action of The Regents. The funds are provided to the Chancellor as additional resources for the performance of his official responsibilities, and all disbursements made from the administrative fund must be made for a recognized business purpose. UC Accounting Manual Chapter A-253-27, *Administrative Fund Payments*, details the policies and procedures governing the management of the administrative funds.

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BFB G-45 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. Additionally, BFB G-45 summarizes and incorporates by reference other existing University policies governing allowable expenses incurred by the Chancellor, and addresses the appropriate use of the funds available to the Chancellor in support of official duties and the required reports for documenting the use of those funds.

On an annual basis, Appendices A and B must be completed to account for all of the expenses incurred by the Chancellor and his Associate. Appendix A includes all of the following expenses:

- Housing expenses of the Chancellor
- Travel expenses
- Entertainment expenses incurred outside of the Chancellor's residence
- Gift expenses
- Membership expenses
- Expenses of the Associate of the Chancellor
- Other expenses

The total amount of the expenses reported on Appendix A for the previous fiscal year must be submitted to Business & Financial Services by September 1 of the current year. In addition, Appendix B reports all of the taxable personal-benefit expenses that are incurred by the Chancellor for support staff and equipment expenses between November 1 of the prior year and October 31 of the current year. Appendix B must be submitted to Business & Financial Services by November 15 of each year.

At UCSB, the Business and Finance Manager in the Office of the Chancellor has been delegated the responsibility for collecting and reporting expenses on Appendix A and Appendix B. In addition, the Business and Finance Manager is responsible for the administration of the Chancellor's administrative fund.

SUMMARY OPINION

Based on the results of the work performed within the scope of the audit, the Office of the Chancellor properly prepared both Appendix A for fiscal year 2015-16 and Appendix B. The Office of the Chancellor has established overall effective internal controls over the collection and reporting of the Chancellor's expenses. However, we identified two transactions for a total amount of \$4,196 that should have been included in the calculation of Appendix A. The Business and Finance Manager explained that this oversight may have occurred due to preparing the report immediately upon starting her position.

Travel and entertainment expenses incurred by the Chancellor complied with UC policies and procedures.