



AUDIT AND ADVISORY SERVICES  
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May 21, 2013

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Executive Vice Chancellor and Provost Breslauer and Coordinator Greer:

Pursuant to our engagement letter dated February 28, 2013 with you, we have completed our assessment of the design and implementation of the process to gather and submit compensation information to the Office of the President (UCOP) to facilitate their preparation of the Annual Report of Executive Compensation (AREC) for calendar year 2012.

### ***Objective and Scope***

The Office of Ethics, Compliance and Audit Services (ECAS) at UCOP requested that audit functions at each campus assist management by evaluating the adequacy of the Senior Management Group (SMG) coordinator's process for ensuring the completeness and accuracy of the data reported to UCOP for inclusion in the calendar year 2012 AREC. Our scope included limited testing as to the completeness and accuracy of certain types of cash and non-cash compensation data collected through this process.

### ***Procedures Performed***

Our testing of completeness and accuracy of cash and non-cash compensation data included, but was not limited to:

- Interviews with the campus SMG coordinator;
- Review of questionnaires and certifications on potentially compensable transactions completed by SMG and other employees subject to AREC reporting requirements;
- Consultation with campus and system wide subject-matter experts on compensation and reportable classes of transactions;
- Analysis of information compiled in the Senior Leadership Information System (SLIS); and
- Analysis of information in campus financial and HR systems of record such as HCM and BFS.

Our work was conducted in a manner consistent with professional standards established by the Institute of Internal Auditors and the University of California Internal Audit Manual for the delivery of advisory services. As an advisory service of limited scope, our work is not intended to be construed as an audit, examination, attestation, special report or agreed-upon procedures as those services may be defined by Institute of Internal Auditors' professional standards. As such we do not provide an independent opinion

as to the completeness and accuracy for the entirety of cash and non-cash compensation data collected by the campus and submitted to UCOP.

***Summary of Internal Control Observations***

In planning and performing our advisory service, we considered internal control in the process to gather and submit reportable compensation information to UCOP. Our consideration of internal control was limited to the process of gathering and submitting reportable compensation to UCOP for the AREC and was not designed to identify all deficiencies in internal control over reporting compensation. The process used to compile income information for the AREC appeared to be adequate to assure the accuracy and completeness of the report.

***Opportunity for Improvement – Spousal Travel***

Under IRS regulations and University policy, we observe that the travel expenses of a spouse (or equivalent) who accompanies a University business traveler are not taxable provided it can be established that his or her presence serves a bona fide business purpose. If a spouse has no significant role in the proceedings, or performs only incidental duties of a social or clerical nature, attendance does not constitute a bona fide business purpose. Such expenses are taxable income to the employee and not reimbursable under University policy.<sup>1</sup> Generally, travel by a spouse who accompanies an athletic director (or assistant director or head coach) to supporting events such as bowl games and tournaments is presumed to have a bona fide University purpose.

We noted that coaches have contracts where travel expenses for spouses, domestic partners or other family members to certain athletic events may be included as a contractual provision. The tax status of these expenses, as well as whether they are reportable on the AREC, depends on the ability to demonstrate a bona fide business purpose. We noted an instance where spousal travel expenses were not initially provided to the SMG Coordinator and the draft report was amended to footnote the item prior to submission to UCOP. Prospectively, further clarification of what is a bona fide business purpose is likely warranted. The question in the Potentially Compensable Transactions certification, “Has the University of California paid for any travel or entertainment expense incurred by your spouse, domestic partner, or dependent?” could be enhanced to mitigate the risk of confusion and unintended inaccurate responses. Upon further inquiry, we have discussed our observation with the campus SMG coordinator and the Office of the President as a potential area of future focus in the AREC process.

Thank you for the opportunity to serve you.

Respectfully reported,

Wanda Lynn Riley  
Chief Audit Executive

Jaime Jue  
Associate Director

Tanaiia Hall  
Senior Auditor

cc: Associate Chancellor Linda Morris Williams  
Assistant Vice Chancellor-Finance and Controller Delphine Regalia

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<sup>1</sup> University of California Business & Finance Bulletin G-28: Travel Regulations, Section V.H.2.f. Spousal Travel and Section V.H.2.g. Athletic Travel – Spouse and Other Family Members.