

UC MERCED AUDIT AND ADVISORY SERVICES

April 5, 2018

To: Brian Powell – Chief Human Resources Officer and Associate Vice Chancellor
for People and Strategy

Subject: Executive Compensation Audit

Ref: Report No. M18A006

UC Merced Internal Audit has completed the annual audit of executive compensation that covered the Annual Report of Executive Compensation (AREC) for 2017 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 from Business and Financial Services staff during the audit.



Todd Kucker
Director of Internal Audit

Attachment

cc: Senior Vice President and Chief Compliance and Audit Officer Bustamante
Chancellor Leland
Chief Financial and Administrative Officer Mendez
Associate Chancellor and Senior Advisor Putney
Assistant Vice Chancellor and Controller Riley
Director Bustos
Associate Director Kinsman
Manager Patino
SMG Coordinator Aldama

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

Executive Compensation
Report No. M18A006

April 5, 2018

Work completed by:
Brandi Masasso – Internal Auditor

Management Summary

As part of the fiscal year 2017 – 2018 annual audit plan, UC Merced Internal Audit has completed an audit of the Annual Report on Executive Compensation (AREC) for calendar year 2017. This review is completed annually on all UC campuses.

Based upon the work completed during this 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 Senior Management Group (SMG) travel and entertainment expenses are properly reviewed for compliance with system-wide policies.

Purpose and Objectives

Internal Audit has completed a review of the Annual Report on Executive Compensation (AREC) at UC Merced. The purpose of this review was to ensure that all individuals in the reportable population for UC Merced were included in the 2017 AREC, and that the correct compensation amounts were reported for each individual.

Our objectives were to ensure that:

- Processes in place are sufficient to ensure accuracy, completeness, and timely preparation of the AREC and the Annual Reports of Expenses of the Chancellor;
- W-2 reconciliations are prepared and completed accurately and timely; and,
- Travel and entertainment expenditures by senior management are in compliance with system-wide policy G-28 *Travel Regulations* and system-wide policy BUS-79 *Expenditures for Entertainment, Business Meetings, and Other Occasions*.

Scope

The scope of our work included a review of the following compensation items and covered activities occurring in the calendar year 2017 for the AREC report, fiscal year 2016 – 2017 and November 1, 2016 to October 31, 2017 for the taxable report:

Annual Report on Executive Compensation for Calendar Year 2017: The AREC provides detailed compensation data on the Senior Management Group (SMG) population and non-SMG's 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, 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: System-wide 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: System-wide 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:* 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:* 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.

Review of the W-2 Reconciliation packages prepared by the Payroll Office: This includes a detailed reconciliation of the 2017 earnings of each of the SMG employees and other applicable employees whose compensation (over \$310,000) 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 occurring in the calendar year 2017 that included expenditures by all of the SMG employees to verify compliance with UC policies.

Background

The Annual Report on Executive Compensation fulfills legal obligations for reporting to the California Legislature and to the public on the compensation of University of California senior managers. The report is presented to the Regents, and includes compensation data for active University employees as of December 31 that meet the following criteria:

- All incumbents in the Senior Management Group (SMG) personnel program regardless of total cash compensation, including employees in acting and interim SMG positions.
- All "Officers of the University" regardless of total cash compensation.
- All "Administrators" that are in the Management and Senior Professional (MSP) personnel program whose total compensation exceeds the reporting threshold, currently \$310,000. "Administrators" generally consists of managers, directors, executive directors, and senior leaders that are non-academic, exempt employees.

- Other specific employees, which include coaches, athletic directors, and other athletic positions whose total compensation exceeds the reporting threshold, currently \$310,000.

Individuals in the reportable population are required to submit a signed, completed *Potentially Compensable Transactions – Individual Certification* document, which includes a *Questionnaire on Potentially Compensable Transactions*. Attached to each certification is a summary report from the Senior Leadership Information System (SLIS) that details the compensation types and amounts to be reported for the individual. UC Merced’s SMG Coordinator is responsible for collecting all signed, completed certifications and questionnaires; completing the AREC based on information from SLIS, personnel files, and other records; and submitting the completed AREC, along with the completed certifications and questionnaires, to the UC Office of the President.

System-wide 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.

Conclusion

Based upon the work completed during this 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.