



AUDIT AND ADVISORY SERVICES

Chancellor's Expenses (BFB-G-45)

Audit

Project No. 17-703

September 25, 2017

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September 25, 2017

Alexander Bustamante
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Carol Christ
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Senior Vice President Bustamante and Chancellor Christ:

We have completed our audit of annual reporting on Chancellor's expenses as required by university policy Business and Finance Bulletin G-45 and as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observation with management action plans are expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of the Office of the Chancellor for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley
Chief Audit and Risk Executive

cc: Associate Chancellor Khira Griscavage
Assistant Vice Chancellor and Controller Delphine Regalia
Deputy Associate Chancellor and Chief Operations Officer Wanda Ellison Crockett

**University of California, Berkeley
Audit and Advisory Services
Chancellor's Expenses (BFB-G-45)**

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OVERVIEW

Executive Summary

The purpose of our audit was to review the campus' Annual Report of Fiscal Year Expenses for the President/Chancellor for fiscal year July 1, 2015 through June 30, 2016 and the Annual Report of Taxable Expenses for the President/Chancellor for the period of November 1, 2015 through October 31, 2016, both of which are required by university policy Business and Finance Bulletin (BFB) G-45, *Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors*. The annual reports were reviewed for completeness and accuracy relative to amounts recorded on the campus general ledger and supporting documentation.

Based on our audit procedures related to the review of the Annual Report of Taxable Expenses, the process of preparing, reviewing, and approving the report appeared to overall operate effectively for the 2016 reporting period.

In reference to the Annual Report of Fiscal Year Expenses, the process of preparing, reviewing, and approving appeared to generally operate effectively for the 2016 reporting period to ensure accuracy of reporting, however, we noted a reoccurring observation from last year's review and, therefore, an opportunity for improvement in completely documenting entertainment events occurring at the Chancellor's residence and compiling and reconciling associated event expenses. We observed that the log of official events, business meetings, and other activities held at the residence and supporting expense documentation were incomplete and not available for report preparation.

Source and Purpose of the Audit

The purpose of our audit was to review the campus Annual Report of Fiscal Year Expenses for the Chancellor for the fiscal year July 1, 2015 through June 30, 2016 and the Annual Report of Taxable Expenses for the Chancellor for the reporting period November 1, 2015 through October 31, 2016 (collectively the 2016 reports), both of which are required by university policy BFB-G-45. The reports were reviewed for completeness and accuracy relative to amounts recorded on the campus general ledger and other supporting documentation.

Scope of the Audit

The scope of our review included reportable expenses and housing provision associated with the official duties of the Chancellor that are required to be tracked and reported according to BFB-G-45. The reporting period for the Annual Report of Fiscal Year Expenses is the university fiscal year; whereas the reporting period for the Annual Report of Taxable Expenses covers the twelve months from November to October.

Our audit procedures included, but were not necessarily limited to, the following:

- obtaining copies of the 2016 reports and report attachments;
- obtaining an understanding of management's process to collect and record amounts reported on the 2016 reports;
- independently extracting expense information from the general ledger related to reportable categories;
- comparing expense information from the general ledger with that reported on the 2016 reports and inquiring with management on any differences including the root cause;
- assessing the overall accuracy and completeness of the amounts reported on the 2016 reports; and
- assessing whether reportable deficiencies or significant deficiencies existed in management's process and internal controls related to the preparation, review, approval, and submission of the 2016 reports.

Our fieldwork was conducted between January and March 2017.

Background Information

University policy BFB-G-45 states that the university intends "to comply with Internal Revenue Service regulations concerning the provision of housing and payment of expenses associated with the official duties of the President and Chancellors." The policy requires each campus to use standardized expense categories in their general ledger to track expenses related to these reportable categories. The campus has a range of Chartfield 1 and Chartfield 2 values in the campus general ledger system to track reportable expenses by category. Each campus must prepare an Annual Report of Fiscal Year Expenses and Annual Report of Taxable Expenses using templates provided in the policy.

Summary Conclusion

Based on our audit procedures performed, we observe the preparation, review, and approval of the Annual Report of Taxable Expenses appears to be overall operating effectively for the 2016 reporting period to ensure completeness and accuracy of reporting.

With respect to the Annual Report of Fiscal Year Expenses, the processes of preparing, reviewing, and approving the Annual Report of Fiscal Year Expenses appears to be generally operating effectively for the 2016 reporting period, however, we noted a reoccurring observation from last year's review of the Annual Report of Fiscal Year Expenses and, therefore, an opportunity for improvement in completely documenting entertainment events occurring at the Chancellor's residence and compiling and reconciling associated event expenses. We observed that the log of official events, business meetings, and other activities held at the residence and supporting expense documentation were incomplete and not available for the preparation of the Annual Report of Fiscal Year Expenses.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Timely Preparation and Approval of Travel and Entertainment Expenses

Observation

Our review of the University House event log for fiscal year 2016 prepared by the University House staff for entertainment expenses occurring at the Chancellor's residence observed that the event log was incomplete. For example, missing information included the description of the event, name of the campus department paying for the event, number of guests, total cost of the event and total cost per person, name of the caterer, chartstring, and name of the person who reconciled the event information. Additionally, we noted that the event packets of supporting expense documentation had not been compiled and reconciled to the expenses listed on the event log and reviewed for completeness at the time of the audit. These deficiencies were observed during last year's G-45 audit and can impact the ability of the Chancellor's Immediate Office to accurately and completely reconcile these entertainment expenses to the campus general ledger and confirm transactions on the Annual Report of Fiscal Year Expenses.

According to university policies BFB G-28 *Travel Regulations*, and BUS-79 *Expenditures for Business Meeting, Entertainment, and Other Occasions*, the campus Controller's Office is responsible for approving the Chancellor's travel and entertainment expenses. The Chancellor's Immediate Office records travel and non-University House entertainment expenses on a monthly travel and entertainment spreadsheet which includes the details of the expense, such as, the official business purpose, expense amounts, and funding source.

Based on our review of the submission of the Chancellor's travel and entertainment spreadsheets to the campus Controller's Office for fiscal year 2016, we observed that these spreadsheets were not being submitted at least monthly to the Controller's Office in accordance with BUS-79 but were submitted intermittently on four occasions during the fiscal year. This is also a repeat observation noted in last year's G-45 audit.

Management Response and Action Plan

Management agrees with the observations and has been developing and implementing procedural changes that will better ensure efficiency and policy compliance. University Development and Alumni Relations has been assigned responsibility for the development and completeness of University House event packets and logs with the compliance review conducted by the Chancellor Immediate Office personnel. With the arrival of a new Chancellor in July 2017, to improve internal controls, management has implemented new processes related to the preparation and approval of travel and entertainment reimbursements. The process improvement will leverage the enhancements of campus financial systems where applicable, to increase the timeliness of review and coordination with the Controller's Office in the approval of the Chancellor's expenditures.

Policy Orientation for the Chancellor

Observation

University of California policy BFB-G-45 governs the identification and reporting of expenses incurred by the President and the Chancellors related to the provision of housing and payment of expenses associated with their official duties.

The policy also addresses expenses that may result in additional taxable income to the President or Chancellor, for example, staff and certain equipment costs for which the President or Chancellor receive personal benefit and are required to be reported as wages on their form W-2. These costs are subject to withholding of federal and state income taxes and applicable Social Security and Medicare taxes.

Additionally, regarding the Associate of the President or the Chancellor, the policy summarizes the tax requirements governing official travel, entertainment, and other business expenses and, according to the policy, includes advice from the University's outside tax counsel on the taxability of these expenses.

Although there are resources for informing the Chancellor of the BFB-G-45 policy, we believe there is an opportunity to proactively bring awareness to the Chancellor of policy content and requirements through an orientation of this policy at the time they first arrive to campus. This orientation could serve to mitigate the risk of any adverse impact to the Chancellor, Associate of the Chancellor, as well as the campus, for noncompliance of policy requirements and possibly inappropriate expenses unbeknown to the Chancellor or the Associate of the Chancellor.

Management Response and Action Plan

Management agrees with the observation. An orientation was held in late June 2017 with the incoming Chancellor that covered relevant G-45, housing, and travel and entertainment policies.