

**UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES**

**Annual Report on Executive Compensation
Internal Audit Services Project #11-04**

March 2011

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MANAGEMENT SUMMARY

As part of the FY 2010-11 audit plan, Internal Audit Services (IAS) conducted a review of the Annual Report on Executive Compensation (AREC). As in past years, the objectives of the AREC review were to determine if the compensation data submitted in the annual report is complete and accurate; appropriate procedures have been developed to ensure submitted data has been accumulated and reported in accordance with Office of the President (UCOP) instructions; and, if any reporting anomalies existed, that they have been properly footnoted and explained in accordance with UCOP instructions.

To perform our review, we interviewed staff responsible for compiling the report, utilized our ACL software to identify employees who should be included in the report, compared the 2010 AREC to the 2009 AREC for consistency and reasonableness of information reported, and reviewed the compensation amounts reported in the AREC for completeness and accuracy.

In addition to the AREC review, IAS conducted a supplemental review of the travel and entertainment claims made by the Senior Management Group (SMG) reported on the AREC. IAS selected a sample of travel expense (TEV) and entertainment expense (EEV) claims and reviewed them for accuracy and compliance with University policy.

Both reviews were performed during March 2011, and encompassed activities and transactions occurring in 2010.

Based on our review of the final AREC and the processes utilized to develop the report, it is our opinion that the UCD 2010 AREC includes the appropriate population and reflects all reportable compensation and benefits that should be included in the report. UCOP provided robust guidance this year on reporting various compensation elements and SMG Coordinators felt this was extremely helpful in the AREC preparation. However, we found there is conflicting guidance regarding the reportable population.

Our review of the SMG TEVs and EEVs disclosed no errors or omissions in the EEVs reviewed, and only a few minor exceptions on the TEVs. We would like to commend senior management, the Offices of the Chancellor and Provost (OCP) and the Accounts Payable Division of Accounting and Financial Services (A&FS) for the attention given to the preparation and review of the TEVs and EEVs to ensure their accuracy and compliance with University policy.

Additional information can be found in the body of this report.

Observations

A. UCOP Guidance

Clarification of the reportable AREC population is needed.

The robust guidance provided by UCOP on reporting various compensation elements is not clear with respect to the reportable population.

Specifically, an email from UCOP to the campus SMG Coordinators in December 2010 noted that “All other **non-academic**, non-represented employees whose total potential cash compensation is greater than \$218,000” should be included in the reportable population. Based on these guidelines, we identified a non-represented Health System Professional and Support Staff (PSS) Supervisor exceeding the Indexed Compensation Level (ICL) of \$218,000 who should have been included in the AREC. UCOP subsequently made the determination that this employee should not be included in the reportable population citing guidelines from the Regents approved in January 2007 (Regents agenda item 7C) that states “all non-faculty **academic administrators** whose cash compensation exceeds the ICL should be included in the reportable population”. Further, a general guideline for determining whether someone should be included in AREC is whether their compensation action will require Regental review or approval.

Recommendation

UCOP should provide clarification to the campuses regarding employees to be included in the AREC population.

Management Corrective Action

UCOP distributed an email March 23, 2011 to all SMG Coordinators recommending that represented staff and non-academic, non-represented (non-exempt) employees be excluded from the AREC. They are currently working on clarifying and re-defining the AREC guidelines to be presented to the Regents for approval in the upcoming meetings.

B. Travel and Entertainment Claims

Travel and entertainment claims were submitted, processed and approved in compliance with University policy.

Our review confirmed that travel and entertainment claims of UCD personnel included on the AREC are being handled in accordance with the University's policies, procedures and practices. Minor deviations from established policies and procedures were noted, but they were deemed to be isolated in nature, and not indicative of a breakdown in the system of internal controls.