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SUBJECT: 2019 Annual Report of Executive Compensation

As a planned project for Fiscal Year 2019-2020, Audit & Advisory Services (A&AS) conducted a review surrounding the Annual Report on Executive Compensation (AREC) reporting process at UCSF. The scope of the review included the process to gather compensation data for the University's senior-most Management and Senior Professional (MSP) administrators, Senior Management Group (SMG) members, and officers of the University regardless of compensation amount, as well as that of certain highly compensated non-SMG employees who met reporting criteria. Additionally, a substantive review of the population was performed to assess the accuracy and completeness of the UCSF data being reported for inclusion in the AREC. Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the "IIA Standards"). This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by another person or entity.

The systemwide AREC is published by the University of California, Office of the President (UCOP) on an annual basis with data from each UC campus, medical center, and laboratory. The systemwide AREC is presented to the UC Regents each summer. The AREC is produced using data collected by each campus from a variety of sources, including payroll, accounts payable, executive compensation approvals, and personnel records. Each campus populates the Senior Leadership Information System (SLIS) database with the data for their reportable population. A quality review of the data is performed at various levels, including reviews by UCOP and by the individuals included within the reported population prior to the publishing of the AREC.

The UCSF 2019 AREC includes compensation and benefits data on 59 UCSF senior executives. UCSF's reportable population includes the following:

- All employees in the SMG regardless of total cash compensation;
- All "Officers of the University" as defined by Standing Order 100.1 on the Regents website, regardless of total cash compensation; and
- All "Administrators" that are in the MSP group whose total compensation is greater than or equal to \$323,700 in 2019; this threshold is established by the UCOP Executive Compensation Unit, as approved by the UC Regents (typically, annually; sometimes, every other year).



As the A&AS review was conducted concurrently with the annual data entry into SLIS by the SMG Coordinator, all information was validated based on the AREC final draft provided by the UCSF SMG/Executive Compensation Specialist to A&AS on April 7, 2020. A&AS does not have access to the OP SLIS. UCSF is required to submit its final 2019 AREC to the Office of the President by April 30, 2020.

The scope of the review encompassed verifying the accuracy of total compensation for employees included in UCSF's reportable population.

In conducting this review, the following specific procedures were performed by A&AS:

- Assessed the process to populate SLIS and its effectiveness to determine the completeness and accuracy of the reporting;
- Reviewed the individuals included on the AREC and independently validated that the eligible population was complete;
- Validated compensation data for all 59 employees included on the AREC, including salary and incentive payments to the Payroll Personnel System (PPS), Operational Data Store (ODS)¹, and certification letters for accuracy and completeness; and
- Examined offer letters for two new hires who were included in the 2019 reportable population.

The scope of this review was limited to the procedures described above and related to transactions and activities occurring during the calendar year 2019. As such, work completed is not intended nor can it be relied upon to identify all instances of potential irregularities, errors, and control weaknesses that may occur in areas not covered in this review. Fieldwork was completed in April 2020.

Based on procedures performed, the 2019 AREC final report submitted for our review included all eligible senior executives in the report and the process in place to identify SMG and MSP population appears appropriate.

Opportunities for improvement were identified in the following areas:

1. A UCSF Health MSP employee had a moving reimbursement that was marked as "Pre-move house hunting expense" in error² as the expenses were actually related to onsite pre-employment management meetings and onboarding with UCSF Health HR. The erroneous expense category on the UCSF Health HR reimbursement cover sheet was not recognized as an error at the time of reimbursement by UCSF Health HR representatives. Moving reimbursements not being reported accurately can result in non-compliance with UC policy or unnecessary exception approval being obtained and can result in inaccurate reporting on the AREC population.
2. The home mortgage of one SMG employee was inaccurately listed on the 2019 AREC. The UCSF Home Loan Coordinator confirmed that the employee paid off the home mortgage loan prior to 2019. Although the employee does not have any active loans in 2019, the home loan data was not removed from the report as UCSF does not have control over the home mortgage field in SLIS; this field is handled by the UCOP executive compensation unit. The SMG Coordinator will manually correct the report for submission by crossing out the home mortgage data on the report and note that the inactive home loan will be removed by the UCOP executive compensation unit.

¹ Operational Data Store (ODS) is the database that houses data from certain tables within PeopleSoft.

² Per University policy, MSP staff are not eligible for house hunting reimbursements expenses and would require after the fact exceptional approval from the Office of the President.

3. The UCOP executive compensation unit approval for Clinical Enterprise Management Recognition Plan 2 (CEMRP2) for five employees did not contain sufficient details to validate payments were appropriate. The CEMRP2 payments were approved by the Administrative Oversight Committee (AOC) at UCOP, and the approval was distributed by the UCOP executive compensation unit. Health HR's Compensation Unit submitted a preliminary list of CEMRP2 payouts to the OP executive compensation unit in early September 2019. CEMRP2 payouts were approved in November 2019, and the approval was communicated by the UCOP executive compensation unit to the SMG Coordinator without the individual payout list. Implementation of CEMRP2 payments are handled within the UCSF Health Compensation Unit. The final individual CEMRP2 payment list was not shared with the SMG Coordinator.

Recommendations:

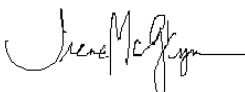
1. UCSF Health HR has agreed to reformat the standard moving and relocation expense summary form for MSP personnel to ensure expense categories are reported accurately in the future.
2. Upon submitting the 2019 AREC to the UCOP executive compensation unit, the UCSF SMG Coordinator will communicate that the one home mortgage field needs to be corrected to remove the erroneous home loan data.
3. UCSF Health HR's Compensation Unit should obtain sufficient approval of CEMRP2 payments including:
 - Use the existing CEMRP2 letter template for obtaining the Chancellor's approval signature for CEMRP2 payments prior to requesting UCOP's AOC approval.
 - Provide the final CEMRP2 payout list to SMG Coordinator for AREC purposes; and
 - Ensure UCOP provides the AOC approved list of the final payout amounts to the SMG Coordinator.

Additionally, potential opportunities for improvement were noted during the course of this review. The SMG Coordinator, who serves as the primary campus coordinator of the AREC while coordinating efforts with UCOP, is a long-time employee within the Human Resources Executive Coordination Unit, and will be retiring at the end of June 2020. The SMG Coordinator is working to document procedures for AREC reporting for her successor; however, there is no designated backup and no cross training of staff on the AREC process, which may increase the risk of inaccurate or incomplete AREC data collection and reporting in future years. While there is UC system wide support and training provided to SMG Coordinators, two suggestions might be considered:

- HR management – Cross train personnel and designate a backup for the SMG Coordinator.
- SMG Coordinator – Complete the development of documented procedures for the data collection and reporting of AREC activities.

If you have any questions or require further information, please do not hesitate to contact me.

Sincerely,



Irene McGlynn
Chief Audit Officer
UCSF Audit & Advisory Services