

**UC MERCED AUDIT AND ADVISORY SERVICES**

April 11, 2019

To: Michael Riley – Interim Vice Chancellor and Chief Financial and Administration Officer

Subject: Executive Compensation Audit

Ref: Report No. M19A005

UC Merced Internal Audit has completed the annual audit of executive compensation that covered the Annual Report of Executive Compensation (AREC) for 2018 and the Annual Reports of Expenses for the Chancellor which are required by UC Policy G-45. During past years, the Regents' Compliance and Audit Committee had required that this review be completed annually on all campuses. This review will now be performed at each UC campus on a three-year cycle.

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  
Associate Chancellor and Senior Advisor Putney  
Director Ellington  
Director Elizalde  
Manager Patino  
SMG Coordinator Aldama

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

Executive Compensation  
Report No. M19A005

April 11, 2019

Work completed by:  
Brandi Masasso – Staff Auditor

## Management Summary

As part of the fiscal year 2018 – 2019 annual audit plan, UC Merced Internal Audit has completed an audit of the Annual Report on Executive Compensation (AREC) for the calendar year 2018.

Based upon the work completed during the audit, we concluded that processes for the preparation of the AREC and the Annual Report 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 systemwide policies.

## Purpose, Objectives, and Scope

Internal Audit has completed a review of the 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 2018 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 Report of Expenses of the Chancellor; and,
- Travel and entertainment expenditures by senior management are in compliance with systemwide policy G-28, *Travel Regulations*, and systemwide policy BUS-79, *Expenditures for Entertainment, Business Meetings, and Other Occasions*.

The scope of our work included a review of the following compensation items and covered activities occurring in the calendar year 2018 for the AREC, fiscal year 2017 – 2018 and November 1, 2017, to October 31, 2018, for the taxable report:

*Annual Report on Executive Compensation for Calendar Year 2018:* The AREC provides detailed compensation data on the SMG population and non-SMGs with annual income over \$318,000 (threshold established for 2018). 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:* Systemwide 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:* Systemwide policy G-45 requires that services or expenses incurred in the operation and staffing of the university residence occupied by the Chancellor, which is 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.

*Senior Management Group Travel and Entertainment:* We selected a sample of travel and entertainment expenditures occurring in the calendar year 2018 that included expenditures by all of the SMG employees to verify compliance with systemwide policies.

At other UC locations, this audit of Executive Compensation included the reporting requirements of Regents Policy 7106: *Policy on the Associate of the President and the Associate of the Chancellor*. These reporting requirements were not currently pertinent to UC Merced.

## **Background**

The AREC 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 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 personnel program whose total compensation exceeds the reporting threshold, currently \$318,000. "Administrators" generally consists of manager, 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 \$318,000.

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 completed and signed questionnaires and certifications; completing the AREC

based on information from the SLIS, personnel files, and other records; and submitting the completed AREC, along with the completed questionnaires and certifications, to the UC Office of the President.

Systemwide policy 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 systemwide policies.