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INTERNAL AUDIT AND ADVISORY SERVICES

G-45 Chancellor Expenses Audit

Report No. M25A006

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Chancellor Expenses (G-45) Audit

EXECUTIVE SUMMARY

Internal Audit and Advisory Services (Internal Audit) has conducted an audit of UC Merced's fiscal year 2023 Annual Report of Fiscal Year Expenses for the Chancellor, and calendar year 2023 Annual Report of Taxable Expenses for the Chancellor. This audit was performed as part of Internal Audit's fiscal year 2025 audit plan, in accordance with systemwide directive to assess campus alignment with UC Policy BFB-G-45: Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors (G-45) every three years. The objective of the audit was to evaluate the completeness and accuracy of the reports, as well as to assess UC Merced's compliance with G-45 requirements.

Overall, Internal Audit noted UC Merced's process for G-45 reporting appears to be operating effectively. Financial and Accounting Services (F&AS) ensures compliance with annual G-45 reporting requirements by submitting reports to UCOP on time and regularly assessing its process to maximize efficiency. However, Internal Audit noted one instance of control weakness that needs improvement in order to provide reasonable assurance that risks are being mitigated and objectives are being met.

The following observation needs improvement to strengthen internal controls and effect compliance:

G-45 Expenses COA Coding. Internal Audit recommends that F&AS collaborate with CBS2 and chancellor support staff to implement a training program to ensure staff responsible for G-45 expenses have a clear understanding of proper expense categorization.

In addition, F&AS should develop a monitoring process to assess the effectiveness of the training program and work with the departments to promptly identify and correct errors.

BACKGROUND

UC Policy BFB-G-45: Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors (G-45) requires campuses to annually report the expenses associated with the chancellor's official residence, as well as travel, gifts, memberships, and entertainment expenses related to the chancellor. This reporting ensures the appropriate use of funds available to the chancellor in support of their official duties and addresses any expenses that may create additional taxable income for the chancellor.

At UC Merced, the Office of the Chancellor is responsible for accurately recording and coding all expenses subject to G-45 requirements. F&AS prepares the Annual Report of Fiscal Year Expenses and the Annual Report of Taxable Expenses of the Chancellor and provides the Office of the Chancellor with the tools to ensure accurate expense recording.

SCOPE AND OBJECTIVES

This audit is a systemwide directive conducted every three years to assess compliance with executive compensation reporting requirements, and it was carried out as part of Internal Audit's responsibilities for the fiscal year 2025 audit plan. The primary objective of the audit was to evaluate the completeness and accuracy of the reports, as well as to assess UC Merced's compliance with G-45 requirements.

The primary scope of the engagement included all FY23 G-45 transactions and related controls for the Annual Report of Fiscal Year Expenses of the Chancellor and the IRS Special Accounting Rule FY23 (November 1, 2022 – October 31, 2023) for the Annual Report of Taxable Expenses of the Chancellor. The audit involved interviews with personnel, a review of policies, testing of accounting records and selected transactions, observations of current practices and processing techniques, and other auditing procedures considered necessary.

POSITIVE OBSERVATIONS

UC Merced is dedicated to upholding excellence in fulfilling its core objectives of teaching, research, and public service. To fulfill this mission, all university stakeholders are expected to demonstrate a strong commitment to driving positive transformations within the institution. As such, Internal Audit is committed to highlighting practices that drive change within the reviewed areas and throughout the University.

During the G-45 audit, Internal Audit noted the following positive observations:

- F&AS demonstrates proactivity by ensuring the annual G-45 reporting requirements are met and submitting reports to UCOP on time.
- F&AS continuously evaluates its G-45 reporting process to identify and implement efficiency improvements.
- F&AS fosters collaboration and responds constructively to suggestions for improvement.

OBSERVATIONS

1. G-45 EXPENSES COA CODING

Background

BFB-G-45 Policy requires for “each location [to use] the expense categories defined in [the policy] to prepare reports. Accordingly, each location must establish a separate account in the location ledger for each category of expense. Separate accounts are not required if a location general ledger system has the capacity to segregate the account categories, such as by project or sub-budget codes within an account.”

Observation

Internal Audit noted 11 instances, in a sample of 27 chancellor support staff expenses that appear to have been miscoded during data entry into Concur. These errors fell into two categories: expenses that were assigned an incorrect natural classification, and expenses that were improperly categorized as either G-45-related or non-G-45-related.

The process of compiling the Chancellor's Annual Report of Fiscal Year Expenses is highly manual and labor-intensive. It requires reconciling all expenses coded with the G-45 sub-activity code to the corresponding accounting categories outlined in the relevant policy. According to F&AS staff, this process requires approximately 40 hours across multiple departments. Below is an overview of the tasks and their time estimates:

- 2-4 Hours – F&AS pulls and compiles reports
- 2-4 Hours – F&AS to review and drill down for details
- 10-12 Hours – Department review and clarification
- 2-4 Hours – Tax Team review
- 8-10 Hours – Office of the Chancellor Review
- 1-2 Hours – F&AS does final review and submits report

This process involves significant coordination with multiple departments to verify the appropriateness of expenses and accurately map them to their designated categories in the report.

The miscoding of G-45 expenses creates a significant administrative burden for F&AS, as additional efforts are required to accurately reconcile and categorize these expenses to meet annual G-45 reporting requirements. Additionally, this issue increases the risk of erroneous data being reported to UCOP, potentially undermining compliance with UCOP's transparency initiatives.

Recommendation

Internal Audit recommends that F&AS collaborate with CBS2 and chancellor support staff to implement a training program to ensure staff responsible for G-45 expenses have a clear understanding of proper expense categorization.

In addition, F&AS should develop a monitoring process to assess the effectiveness of the training program and work with the departments to promptly identify and correct errors.

Management Corrective Action (MCA)

F&AS will continue to train CBS2 staff and chancellor support staff on proper G-45 expense categorizing. The training will focus on utilizing the pre-existing G-45 subactivity code, A000051 in combination with appropriate natural expense account categorization.

F&AS will assess the effectiveness of training provided to campus departments, such as CBS2 and chancellor support staff, by conducting a quarterly expense review of all items posted to sub-activity A00051. F&AS will implement this new process beginning March 30, 2025.