

April 12, 2013

**ASSISTANT CHANCELLOR AND CHIEF OF STAFF GARCIA
ASSISTANT VICE CHANCELLOR DUNLAP**

Subject: Final Report on Audit Project No. M13A007: Executive Compensation

Attached is the final report for Audit No. M13A007: Executive Compensation. With the issuance of this final report, please destroy any previous draft versions.

I appreciate the assistance provided to me by your staff during the review. If you should have any questions, please feel free to contact me.



Todd Kucker
Internal Audit Director
UC Merced Internal Audit Services

Attachment

cc: Chancellor Leland
SVP Vacca
Vice Chancellor Miller
Assistant Vice Chancellor Ahmed
Director Ireland
Analyst Akers

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

**Executive Compensation Audit
Report No. M13A007**

April 12, 2013

Work Performed by:
Todd Kucker, Internal Audit Director

Purpose and Scope

Internal audit has completed a review of executive compensation at UC Merced. This review was part of the fiscal year 2013 audit plan. The audit objectives were to:

- Evaluate processes in place to determine if they are sufficient to ensure accuracy, completeness, and timely preparation of the Annual Report of Executive Compensation (AREC) and the Annual Reports of Expenses of the Chancellor;
- Evaluate travel and entertainment procedures to determine adequacy and compliance with UC policies and procedures G-28, “Policies and Regulations Governing Travel” and BUS-79, “Expenditures for Entertainment, Business Meetings, and Other Occasions”; and,
- Evaluate and verify W-2 reconciliations are prepared and completed accurately and timely.

The scope of the work included a review of the following compensation items:

1. *Annual Report on Executive Compensation (AREC) for Calendar Year 2012*
The AREC provides detailed compensation data on the Senior Management Group (SMG) population and non-SMGs with annual income over \$250,000 (threshold established for 2012). 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.
2. *Annual Report of Fiscal Year Expenses of the Chancellor*
UC policy G-45, “Implementing Requirements of Expenses Incurred in Support of Official Responsibilities of the 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.
3. *Annual Report of Taxable Year Expenses of the Chancellor*
UC policy G-45 requires that services or expenses incurred in the operation and staffing of the University residence occupied by the Chancellor, which are 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 includes two additional forms as listed below:
 - Report of Staff Time Devoted to the Personal Services Performed for the Chancellor, which is 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, which is 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.
4. *Review of travel and entertainment processing for expenses incurred by the Chancellor*
Travel and entertainment expenses incurred by other members of the Senior Management Group (SMG) during fiscal year 2012 were not reviewed during this audit as these expenses were reviewed during a recent systemwide audit of travel and entertainment expenses.
 5. *Review of the W-2 Reconciliation packages prepared by the Payroll Office.*
This includes a detailed reconciliation of the 2012 earnings of each of the Senior Management Group (SMG) employees and other applicable employees whose compensation (over \$250,000) must be disclosed in the annual report to the Regents.

The scope of the audit concentrated in related activities occurring in the calendar year 2012 for the AREC, fiscal year 2011-2012 for the fiscal report, and November 1, 2011 to October 31, 2012 for the taxable report.

For the Annual Report on Executive Compensation, we inquired with the employees responsible for preparing the reports to understand their procedures, and observed guidelines provided by the Executive Director, Executive Compensation Programs and Strategy. In addition, we performed limited testing to validate the amounts reported.

For the fiscal and taxable reports, we selected a sample of transactions to test for compliance with G-45, "Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors".

In addition, we selected a sample of travel and entertainment expenses by the Chancellor during calendar year 2012 to verify compliance with UC policies G-28, "Policy and Regulations Governing Travel" and BUS-79, "Expenditures for Entertainment, Business Meetings, and Other Occasions".

For the W-2 packages, we reconciled the employer issued W-2 tax form to the Record of Earnings (ROE) established for the employee in the Payroll/Personnel System (PPS), for each of the Senior Management Group members and other applicable employees.

Overall Conclusion

In general, processes in place for the preparation of the AREC and Annual Reports of Expenses of the Chancellor as well as travel and entertainment payments were sufficient to ensure their accuracy and completeness.

We recommended improving the review and reconciliation of the amounts reported on the AREC. As a result, the Controls and Accountability department will review the amounts presented on the AREC for accuracy and presentation.

Opportunity for Improvement and Action Plan

1. The review of the Annual Report of Executive Compensation could be improved

During the reconciliation of the compensation amounts on the AREC, we noted a few errors on the draft of the report. A couple items should have been presented in a different manner while another error resulted from a keying error. These amounts were corrected before the final report was submitted to the UC Office of the President.

In future years, Internal Audit will complete this review on a biennial basis. We recommend that someone other than Internal Audit be assigned to review the amounts on the draft of the AREC after it is completed by the SMG Coordinator.

Management Action Plan:

Going forward, the Controls and Accountability department will review and reconcile the compensation amounts on the draft of the AREC before it is approved by the Chancellor.