



AUDIT AND ADVISORY SERVICES

Annual Report on Executive Compensation Audit Project No. 11-577

April 22, 2011

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April 22, 2011

Robert Birgeneau
Chancellor

George Breslauer
Executive Vice Chancellor & Provost

Chancellor Birgeneau and Executive Vice Chancellor & Provost Breslauer:

We have completed our audit of the Annual Report on Executive Compensation (AREC) as per the system-wide annual audit plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

The audit objective was to verify the completeness, accuracy and appropriateness of (a) the Annual Report on Executive Compensation (AREC), (b) the Chancellor's Expense Reports (Business and Finance Bulletin G-45), and (c) Executive Travel and Entertainment Expenses by evaluating the adequacy of internal controls, compliance with University and external policies and procedures, prudent business practices, and economy and efficiency of operations as defined by BFB G-28 *Policy and Regulations Governing Travel* and BFB BUS-79 *Expenditures for Business Meetings, Entertainment, and Other Occasions*. The audit scope included expenses incurred in FY 2010. Audit techniques included in-depth discussions with departmental personnel regarding their processes, assessment of internal controls and detailed testing of the AREC report, the Chancellor's Annual Report of Fiscal Year Expenses, the Chancellor's Annual Report of Taxable Expenses and selected travel and entertainment transactions of the Chancellor and other campus executives.

Overall, we observed improvement to the AREC and Chancellor's annual reporting processes that appear to address some of our prior-year process observations.

However, we noted certain opportunities to continue to improve processes, such as the administration of the overall process to ensure timely receipt and verification of supporting or corroborating documentation in advance of initial report certification and submission to the Office of the President. Doing so could mitigate the risk of corrections prior to final compilation by the Office of the President. In addition, there was one outstanding observation from the calendar year 2009 AREC audit relating to the creation of a process to identify and include other potential compensation such as non business-related spousal travel in Athletics that is subject to completion of management's action plan. In response, the SMG Coordinator plans to manage and coordinate the overall process to include facilitating the finalization of process and procedure

documentation and to implement periodic meetings with other stakeholders in the preparation of the AREC.

In addition, our review of the G-45 Chancellor's reports noted that \$3,232 posted to the general ledger in the "Other Expenses" category was initially omitted from the Annual Report of Fiscal Expenses in error. However, an updated version of the report was provided to the Office of the President prior to the finalization of this report. During our review, we observed an additional opportunity to improve transparency by suggesting that management document approved exceptions to G-45 and other applicable policies regarding prepayment of travel, specifically. We have communicated this observation to management for correction.

Overall, we found the executive travel and entertainment expenditures for FY 2010 appeared to be appropriate and administered adequately. However, our review of executive travel and entertainment showed three instances where travel and entertainment expense reimbursements had been requested and made to a dean without authorization from the Office of the Executive Vice Chancellor and Provost (EVCP). We have communicated this observation to management for correction. In response, the EVCP senior staff will direct the dean and assistant dean to develop, document and implement corrective action and to report their progress to the EVCP office.

The reported observation(s) with management action plans are expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the campus AREC Team, the Office of the Chancellor and executive management support staff for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley
Chief Audit Executive

cc: Vice Chancellor John Wilton
Associate Chancellor Beata FitzPatrick
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
Associate Chancellor Linda Morris Williams
Interim Associate Vice Chancellor and Controller Delphine Regalia

**University of California, Berkeley
Audit and Advisory Services
Annual Report on Executive Compensation**

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OVERVIEW

Executive Summary

In accordance with the annual system-wide audit plan for the University of California (the University) we conducted a review of the Annual Report on Executive Compensation (AREC) for calendar year (CY) 2010. In association with this review, we also reviewed the reporting requirements under Business and Finance Bulletin (BFB) G-45 *Implementation Requirements on Expenses Incurred in Support Of Official Responsibilities of the President or Chancellor*, BFB G-28 *Policy and Regulations Governing Travel* and BFB BUS-79 *Expenditures for Business Meetings, Entertainment, and Other Occasions*, as they pertain to executive travel and entertainment. Based upon our procedures performed, we observed that AREC and G-45 annual reports and executive travel and entertainment were adequate overall but, in each case, noted opportunities for improvement.

Source and Purpose of the Audit

The purpose of this review was to evaluate the completeness and accuracy of (a) the Annual Report on Executive Compensation (AREC), (b) the Chancellor's Annual Report of Fiscal Year Expenses and the Chancellor's Annual Report of Taxable Expenses and (c) selected travel and entertainment transactions of the Chancellor and other campus executives. Audit techniques included in-depth discussions with departmental personnel, completion of internal control questionnaires and detailed testing of the process for completing the AREC report.

Scope of the Audit

The scope of the review concentrated on related activities occurring in CY 2010 for the AREC, FY 2010 for the Chancellor's Annual Report of Fiscal Expenditures, and November 1, 2009 to October 31, 2010 for the Chancellor's Annual Report of Taxable Expenses. We reviewed executive travel and entertainment transactions that occurred in FY 2010.

Background Information

Executive compensation reforms were initiated in 2006 and this review is performed on an annual basis. The following items are included in the review:

1. The AREC provides detailed compensation data on the senior management group (SMG) population and non-SMGs with annual income over \$218,000 (threshold established for 2010). Total compensation is defined as salary and other cash payments made to the employee; one time reimbursements made to the employee, or on behalf of the employee; and any benefits and perquisites. This report is presented to the Regents for review and approval.
2. The Annual Report of Fiscal Year Expenses of the Chancellor. BFB G-45 implementing requirements on expenses incurred in support of official responsibilities of the Chancellor requires reporting of all amounts paid or accrued for

the current fiscal year, whether paid on behalf of the officer or reimbursed directly to the officer.

3. Annual Report of Taxable Expenses of the Chancellor. BFB G-45 requires that services or expenses incurred in the operation and staffing of the University residence occupied by the President/Chancellor, which are of personal benefit to the President/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.
4. Travel and entertainment processing for expenses incurred by the Chancellor.
5. Travel and entertainment processing for expenses incurred by executive-level senior management in accordance with BFB G-28 *Policy and Regulations Governing Travel* and BFB BUS-79 *Expenditures for Business Meetings, Entertainment, and Other Occasions*, campus exceptional entertainment policy, and other applicable policies.

BFB G-45 has provisions for the following:

- Housing Expenses of the President/Chancellor (Section II)
- Travel (Section III)
- Entertainment Outside the Residence (Section IV)
- Gifts (Section V)
- Memberships (Section VI)
- Associate of the President/Chancellor (Section VII)
- Other Expenses (Section VIII)

Summary Conclusion

AREC Reporting

Overall, we observed improvement to the AREC and Chancellor's annual reporting processes that appear to address some of our prior-year process observations.

However, we noted certain opportunities to continue to improve, such as the administration of the overall process, to ensure timely receipt and verification of supporting or corroborating documentation in advance of initial report certification and submission to the Office of the President. Doing so could mitigate the risk of corrections prior to final compilation by the Office of the President. In response, the SMG Coordinator plans to manage and coordinate the overall process to include facilitating the finalization of process and procedure documentation and to implement periodic meetings with other stakeholders in the preparation of the AREC.

In addition, there was one outstanding observation from the CY 2009 AREC audit relating to the creation of a process to identify and include other potential compensation such as non business-related spousal travel in Athletics that is subject to completion of management's action plan.

BFB G-28 and BUS-79 Executive Travel and Entertainment

Overall, we found that the executive travel and entertainment expenditures for FY 2010 appeared to be appropriate and administered adequately. However, our review of executive travel and entertainment showed three instances where travel and entertainment expense reimbursements had been requested and made to the same dean without authorization from the Office of the Executive Vice Chancellor and Provost (EVCP). In response, the EVCP senior staff will direct the dean and assistant dean to develop, document and implement corrective action and to report their progress to the EVCP office.

In addition, our review of the G-45 Chancellor's reports noted that \$3,232 posted to the general ledger in the "Other Expenses" category was initially omitted from the Annual Report of Fiscal Expenses in error. However, an updated version of the report was provided to the Office of the President prior to the finalization of this report. During our review, we observed an additional opportunity to improve transparency by suggesting that management document approved exceptions to G-45 and other applicable policies regarding prepayment of travel, specifically. We have communicated this observation to management for correction.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Administration of the Annual Report on Executive Compensation Process

Observation

Though we did not detect instances of inaccuracy in the report, the administration of the process did not ensure timely receipt of supporting or corroborating documentation. This had an adverse impact on the ability to verify certain data in advance of initial report certification and submission to the Office of the President. Doing so could mitigate the risk of corrections prior to final compilation by the Office of the President.

Management Response and Action Plan

We note that this is the first full cycle of the AREC reporting process since the assignment of responsibilities delineated in Chancellor Birgeneau's letter of February 12, 2010 where three individuals were given responsibility for management and oversight of executive compensation reporting for their assigned populations. We agree with the observation that the process could be improved by having a single administrator managing the entire AREC reporting process. We plan to have the SMG Coordinator manage and coordinate the overall process and procedures for completing the AREC; working with the other campus units and persons responsible for supporting the process. We will amend the Chancellor's letter to include a statement assigning management of the overall process for the Annual Report on Executive Compensation to the SMG Coordinator.

In addition, we plan to finalize the process documentation covering the procedures and controls for preparing the AREC and set up periodic meetings throughout the year for all the stakeholders to come together to discuss progress and review information. We plan to have this completed by August 1, 2011.

Authorization of Executive Travel and Entertainment

Observation

We observed that though controls were in place at the Office of the Executive Vice Chancellor & Provost to review and authorize executive travel and entertainment expenses, we detected two travel vouchers (of 11) and one entertainment voucher (of 13) for a dean that was reimbursed without the authorization of the Executive Vice Chancellor & Provost or his designee. Further, there were different authorizing signatures on each voucher by staff in the school who were in positions that were subordinate to the dean whether directly or indirectly.

Management Response and Action Plan

The EVCP will direct EVCP senior staff to contact the dean in question and the assistant dean. The assistant dean will be directed to develop a signature authorization process for all reimbursements involving the dean; this process will be reviewed by staff in the EVCP office. Once reviewed and approved, the assistant dean will be responsible for disseminating the signature authorization process to appropriate staff within the school. In addition, the assistant dean will be asked to monitor the process and report back to the EVCP office for one year, to ensure that all of the dean's reimbursements are being properly authorized. In addition, the senior staff in the EVCP office will independently research travel and entertainment reimbursements submitted to Disbursements on behalf of that dean to ensure it has been reviewed and approved by the EVCP office prior to submission. We plan to have this system in place by July 1, 2011.