

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO  
AUDIT AND ADVISORY SERVICES**

**Moving and Relocation Expenses  
Project #17-094**

**July 2017**

University of California  
San Francisco



**Audit and Advisory Services**

July 21, 2017

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**SUBJECT: Moving and Relocation Expenses Review**

Audit and Advisory Services (A&AS) conducted a supplementary review of moving and relocation expenses. This review was performed in supplement to the Annual Report on Executive Compensation (AREC) review due to certain issues noted within the moving and relocation expense reimbursements process which were outside of the scope of the AREC review.

Our review was completed in May 2017 and the preliminary draft report was provided to department management in June 2017. Management provided us with their final comments and responses to our observations in July 2017. The observations and corrective actions have been discussed and agreed upon with department management and it is management's responsibility to implement the corrective actions stated in the report. In accordance with the University of California audit policy, A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

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 any other person or entity.

Sincerely,

A handwritten signature in black ink, appearing to read 'Irene McGlynn', is written over a horizontal line.

Irene McGlynn  
Director  
UCSF Audit and Advisory Services

## EXECUTIVE SUMMARY

### I. BACKGROUND

Audit and Advisory Services (A&AS) conducted a supplementary review of moving and relocation expenses. This review was performed in supplement to the Annual Report on Executive Compensation (AREC) review due to certain issues noted within the moving and relocation expense reimbursements process which were outside of the scope of the AREC review.

Campus Accounts Payable (Campus AP) is responsible for processing moving and relocation expense requests for reimbursement for campus employees. Medical Center Human Resources (MC HR) is responsible for executing this process for medical center employees. Processing of these requests includes reviewing the requests to ensure:

- Proper approvals are obtained;
- Evidence documentation properly supports the requested reimbursement (amount, type of expense);
- Reimbursement complies with University policies and guidelines; and
- Determine the proper taxability assessment of the expense.

### II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess the adequacy of the processes and controls in place for the moving and relocation expense reimbursement process, including:

- Accuracy of transactions assessed as taxable/non-taxable income
- Reimbursement of expenses that were properly approved and in compliance with policies

The scope of the review covered transactions and activities for the period January 1 to December 31, 2016. The AREC population was reviewed, and where appropriate additional samples were selected to assess the prevalence of issues identified.

Procedures performed as part of the review included interviews with AP and HR personnel; reviews of documentation submitted by employees in support of reimbursement request; reviews of University policies and IRS publications as needed.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended, nor can it be relied upon, to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in May 2017.

### III. SUMMARY

Based on work performed, existing processes and controls for the moving and relocation expense reimbursement process provides reasonable assurance that reimbursements are processed in compliance with University policy.

Opportunities for enhanced controls and processes exist in the areas of taxability determination, ensuring proper documentation and approvals are obtained and aligning processes between MC and Campus.

The specific observations from this review are listed below:

- Moving expenses were erroneously categorized as non-taxable instead of taxable income
- Moving/Relocation expenses were improperly reimbursed to MC employees
- There are two different approaches by MC and Campus for managing the moving and relocation expense reimbursement process

Additional opportunities for improvement exists relating to standardizing the moving/relocation section of offer letters and adding thresholds to the moving policy around cost and/or weight limits.

Further details on the specific observations and management corrective actions are set out below.

**V. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (“MCA”)**

**A. Moving and Relocation Expenses**

No.	Observation	Risk/Effect	Recommendation	MCA
1	<p><b><i>Moving expenses were erroneously categorized as non-taxable instead of taxable income.</i></b></p> <p>The following moving related expenses were recorded as non-taxable when they should have been recorded as taxable income to the employee:</p> <p>Campus AP:</p> <ul style="list-style-type: none"> <li>a. <u>Return Trips</u>: \$1,259.21 for two moving related return trips by a Senior Management Group (SMG) employee was improperly categorized as non-taxable income (Campus vouchers: telc0003 and telc0006).</li> <li>b. <u>Rental Car Expenses</u>: \$502.64 for a rental car that was rented upon employee’s arrival to the new work location was improperly categorized as non-taxable income. This error was self-identified by Campus AP during this review (Campus voucher telc0002).</li> </ul> <p>MC HR:</p> <ul style="list-style-type: none"> <li>a. <u>Rental Car Expenses</u>: \$571.65 for car rental, parking and gas expenses that were incurred once the employee had</li> </ul>	<p>Noncompliance with IRS Publication 521 and UC BFB-BFB-G-13 Policy</p>	<p>Campus and MC:</p> <p>We recommend an amended W-2 be filed for each employee to correct the taxable income amounts from these errors.</p> <p>We recommend additional training of employees responsible for performing the taxability determination.</p> <p>We recommend the update of any tools used by the employees responsible for determining the taxability to reflect current IRS and University guidelines. Any updates should be validated with the UCOP Tax department.</p>	<p><b>Responsible Party:</b></p> <p>Campus AP has completed corrective action and submitted a W-2C to payroll to correct errors for return trips and rental car expenses.</p> <p>Campus AP has completed corrective action and started attaching the checklist completed by the processor to each relocation package and having management review the package, including taxability.</p> <p>MC HR will request AP to submit W-2C to record as taxable income for the following vouchers: 8116589 Car Rental, 8110441 Parking/Gas by August 15, 2017.</p> <p>MC HR will seek Presidential retro-approval for voucher #7959492 on excess storage by September 20, 2017. HR will request AP to submit W-2C to record as taxable income upon approval.</p>

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	<p>moved to the new work location were improperly categorized as non-taxable income (MC vouchers: 8116589 and 8110441).</p> <p>b. <u>Storage in Excess of 30 days:</u> \$5,162.37 for 83 days of storage in excess of 30 days by a Management and Senior Professional (MSP) employee was improperly categorized as non-taxable income (MC voucher 7959492).</p> <p>According to IRS publication 521, rental car and associated expenses are only deemed as non-taxable income if the expenses are incurred to execute the employee's final move from their old residence to their new residence (temporary or permanent).</p> <p>Storage in-transit in excess of 30 days and moving related return trips are listed as non-deductible expense and any reimbursed expenses that are non-deductible should be included in taxable income. Storage in-transit is defined as "the storing at an intermediate point of goods that are to be reshipped to their final destination within a prescribed period."</p> <p>G-13 Policy permits exceptions and identifies authorized approvers; however, SMG employees and MSP employees who meet the income threshold have a separate approval matrix not included in G-13 Policy.</p>			

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2	<p><b><i>Moving/Relocation expenses were improperly reimbursed to MC employees.</i></b></p> <p>a. A MC employee in the MSP group was improperly reimbursed for additional temporary housing and housing security deposit of \$9,694 (voucher # 7742843). Currently, MC reimburses employees for housing security deposits, Campus AP does not reimburse for this. Housing security deposits are usually refundable deposits, and per review of the tenant agreement submitted by the employee this deposit is refundable contingent on the condition of the premises upon the employee's move out. Leading practice is to not reimburse employees for refundable deposits.</p> <p>i. Proper documentation evidencing payments of expenses by the employee was not obtained for moving related expenses totaling \$18,679.</p> <ul style="list-style-type: none"> <li>• For voucher # 7742843 for \$9,694, the employee submitted a bank receipt showing a transfer from a savings account to a checking account. In order to properly evidence the payment, in addition to the bank receipt the employee should have provided the supporting bank statement showing the payment from their account matching the amount on</li> </ul>	<p>Financial loss to the university, reputational risk due to public scrutiny of highly paid employees</p>	<p>MC should obtain after the fact exceptions from authorized exception approvers for the transactions that were identified as out of policy, including for the housing security deposit if not repaid. Documentation should be retained evidencing why these exceptions were obtained after the fact.</p> <p>MC should update the "Relocation Guideline" document to remove housing security deposits as an allowable expense.</p> <p>MC should train employees on allowable expenses per University policy and update any tools used by the employees to ensure current policies and guidelines are incorporated. Additionally, employees should be trained on when exceptional approval is required and the corresponding authority matrix. MC should also</p>	<p><b>Responsible Party:</b> MC HR will seek Presidential retro-approval for voucher #7742843 for additional temporary housing by September 20, 2017.</p> <p>If exception approval is obtained, MC HR will seek repayment of the remaining security deposit by August 20, 2017. If exception approval is not obtained, MC HR will need to seek repayment of \$9,694 either at the conclusion of the rental (via written repayment agreement) or via repayment plan by August 20, 2017.</p> <p>Regarding Relocation Guideline, training, and tax treatment verification process, these efforts will be addressed in the MCA below regarding streamline process between MC and Campus HR and AP.</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>the receipt.</p> <ul style="list-style-type: none"> <li>• For voucher #7747540 for \$8,985, the employee submitted a copy of an invoice as evidence of payment. The invoice was addressed to UCSF Accounts Payable, and did not show evidence of payment by the employee. In order to properly evidence the payment, the employee should have provided a receipt from the landlord, or evidence of payment from her bank account or credit card statement.</li> </ul> <p>b. Storage costs in excess of 30 days were reimbursed for an MSP employee. The MSP employee was reimbursed for 30 days of storage costs totaling \$2,940 (voucher #7845527). Additionally, the employee was reimbursed for another 83 days of storage costs totaling \$5,162.37 (voucher # 7959492).</p> <p>G-13 Policy requires exception approval to be obtained for storage and temporary housing in excess of 30 days: UCOP Presidential approval for MSP employees who meet the income threshold and local approval authority for other MSP employees and PSS employees.</p>		<p>train employees and provide examples on acceptable documentation to evidence expenses.</p> <p>MC should consider implementing a management review process to validate the accuracy and quality of relocation and moving expense reimbursement requests processed by the department.</p>	

No.	Observation	Risk/Effect	Recommendation	MCA
3	<p><b>Two different approaches were adopted by Campus and MC respectively for managing the moving/ relocation reimbursement expense process.</b></p> <ol style="list-style-type: none"> <li>1. <b>Responsibility for processing:</b> Campus AP is responsible for reviewing reimbursement requests for proper approval, supporting documentation, compliance with policies, and assessing whether income is taxable or non-taxable. Within MC, HR is responsible for performing these tasks. Additionally, one individual within Campus AP handles all requests, whereas seven different individuals handle requests on the MC side.</li> <li>2. <b>Tools and Procedures:</b> Campus AP and MC use different tools for processing of these transactions. Each side uses a different checklist/spreadsheet to identify allowable expenses and what is taxable/non-taxable. Additionally, neither area has written procedures documenting what and how these requests should be processed. A few key issues noted about tools and procedures: <ol style="list-style-type: none"> <li>a. Neither side uses a tool that differentiates between SMG and non-SMG employees, since SMG employees' moving</li> </ol> </li> </ol>	<p>Financial loss to the University, Inconsistent application of policies, lack of alignment with One UCSF strategy</p>	<p>We recommend MC and Campus collaborate to ensure consistency in the processing of reimbursement requests. Additionally, they should continually consult with each other, especially on complex scenarios where taxability is not clear.</p> <p>Whenever possible the same tools, guidelines, and procedures should be used to process reimbursement requests.</p> <p>Employees on both sides should be trained in one agreed upon approach to managing the moving/ relocation reimbursement process. Focusing on policy and tax interpretation and application.</p> <p>MC and Campus should assess whether the same system can be used for processing reimbursements. If the requests cannot all be processed through the same system, then MC</p>	<p><b>Responsible Party:</b> MC HR, MC AP, Campus AP, and Campus HR met on 7/18/17 to discuss plans to align processes and provided outline of what the group agreed on below:</p> <p><b>A. Responsibilities</b></p> <ul style="list-style-type: none"> <li>• Medical Center HR will continue to issue offer letter and will possess basic moving and relocation tax knowledge.</li> <li>• Campus HR will continue their current level of involvement in the moving and relocation process and Departments will continue to issue the offer letter.</li> <li>• Medical Center AP and Campus AP will have final ownership and review of tax coding. Any tax question that is more complex or Medical Center HR/ UCSF Departments are not able to answer will need to be turned over to Medical Center AP or Campus AP for further assistance.</li> <li>• Medical Center AP &amp; AP Campus will jointly own the tax matrix and responsible for updates.</li> </ul>

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	<p>expenses are governed by a different policy it is important to have a tool that reflects that.</p> <p>b. Each side interprets the offer letter maximum amount different. MC interprets the temporary housing and moving expense maximum as two separate amounts, Campus AP interprets the moving expense maximum as being inclusive of the temporary housing amount.</p> <p>c. There are inconsistencies between what is determined to be taxable income versus non-taxable income based on our review of the checklist/spreadsheets used by each group.</p> <p>3. <b>Systems:</b> Campus AP uses PeopleSoft to process payments to employees; MC uses Pathway Material Management (PMM). Campus AP has access to review previous reimbursement payments to each employee, allowing them to utilize this tool while processing transactions and ensure payments processed are within the allowable maximum and aren't duplicative. MC HR does not have access to PMM to view this information.</p>		<p>employees who are responsible for processing should obtain access to PMM to review previous payments as part of the updated procedures.</p> <p>An assessment should be done on whether the current workflow is efficient, since the responsibilities for this process are handled by different departments on each side, determine whether it makes sense operationally to have the same workflow and responsibilities on both sides.</p>	<ul style="list-style-type: none"> <li>• Medical Center AP will perform tax coding and ensure accuracy of tax and non-tax expense classifications for moving and relocation reimbursements.</li> <li>• Medical Center AP &amp; Campus AP will jointly be responsible for informing all four groups of any UC policy and tax regulation changes.</li> </ul> <p>B. <b>Offer Letter</b></p> <ul style="list-style-type: none"> <li>• Medical Center HR and Campus HR will meet to further discuss and agree upon some basic content they can include in the offer letter.</li> <li>• Tax information will be included with the offer letter</li> </ul> <p>C. <b>Tax Matrix</b> – Revised matrix will be sent out for everyone to review as soon as the approved matrix is sent out by UCOP Tax Accountant. The updated version will be used as a guide until UCOP issues an approved matrix.</p> <p>D. <b>Tax Checklist</b> – Campus AP to create for Departments to use based on current knowledge and will be finalized when UCOP</p>

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				<p>issues the approved matrix.</p> <p>E. <b>Tax Training</b> – Campus AP will develop a basic moving and relocation process and tax guide for everyone to reference.</p> <p>F. <b>G-13 Policy and Tax Changes and Updates</b> – Campus Medical Center and AP will monitor and share any updates with Medical Center HR, Campus HR, and Campus Departments.</p> <p>The business units will meet another time to finalize completion date for each action item by August 2017.</p>

**B. Opportunities for Improvement**

No.	Observation	Risk/Effect	Recommendation
1	<p><b><i>Not all offer letters include a maximum threshold for reimbursement.</i></b></p> <p>There were two MSPs offer letters where language of applying threshold is inconsistent:</p> <ul style="list-style-type: none"> <li>• “reimbursement of moving and relocation, not to exceed \$20,000”</li> <li>• “reasonable reimbursement for moving and relocation expenses”</li> </ul>	<p>High moving reimbursement amounts significantly above the standard quotes or average cost may be considered unreasonable.</p>	<p>We recommend setting a - maximum threshold that the University will reimburse for moving related expenses and it should be documented within the offer letter or the MC Relocation Guideline that accompanies the offer letter. This allows for better cost control and budgeting on the University’s part. Any exceptions to that threshold require approval which ensures management is informed of any potential increase in budgeted expenses. Additionally, having a threshold ensures</p>

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	<p>The employee, who did not have a defined max limit, spent a total of about \$33,000 in moving expenses (\$25,000 in moving and \$8,000 in storage). The moving cost seems to deviate from the standard which may not appear reasonable when compared to the moving industry standard pounds and quotes:</p> <table border="1" data-bbox="346 462 867 776"> <tr> <td>Four bedroom house (weight about 15,000 lb)</td> <td>1,000 miles</td> <td>3,000 miles</td> </tr> <tr> <td>Standard cost</td> <td>\$6,500</td> <td>\$13,700</td> </tr> <tr> <td>With packing services</td> <td>\$7,500</td> <td>\$14,700</td> </tr> <tr> <td>With insurance and packing services</td> <td>\$8,600</td> <td>\$15,800</td> </tr> </table> <p>The moving weight was 23,000 lbs. with moving distance of 1,255 miles. This included 9 mattresses, auto relocation and an extra stop. When auto relocation cost of \$1,298 is deducted from the moving cost, the total cost of moving is still \$20,649.</p> <p>MC moving of households goods transactions showed the following trend over 5 years:</p> <table border="1" data-bbox="346 1112 835 1365"> <thead> <tr> <th>MC Moving Household 5 Years Trend</th> <th>Number of Employees</th> </tr> </thead> <tbody> <tr> <td>\$500 - \$5,000+</td> <td>243</td> </tr> <tr> <td>\$6,000 - \$10,000+</td> <td>17</td> </tr> <tr> <td>\$11,000 - \$19,000+</td> <td>2</td> </tr> <tr> <td>\$20,000+</td> <td>4</td> </tr> </tbody> </table>	Four bedroom house (weight about 15,000 lb)	1,000 miles	3,000 miles	Standard cost	\$6,500	\$13,700	With packing services	\$7,500	\$14,700	With insurance and packing services	\$8,600	\$15,800	MC Moving Household 5 Years Trend	Number of Employees	\$500 - \$5,000+	243	\$6,000 - \$10,000+	17	\$11,000 - \$19,000+	2	\$20,000+	4		<p>that expectations of both the employees and the University are explicit and the employees have a guideline for planning their move.</p>
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<b>No.</b>	<b>Observation</b>	<b>Risk/Effect</b>	<b>Recommendation</b>
2	<p><b><i>The University does not define maximum limits that will be reimbursed for moving and relocation expenses.</i></b></p> <p>The University's policies do not have maximum cost or weight limits for the reimbursement of moving of household goods. Leading practice is to set the maximum weight between 16,000 to 18,000 pounds for moving of household goods.</p> <p>The goal of oversight is to manage unexpected total compensation and avoid/reduce public scrutiny. As such, unusually high reimbursements to executives could potentially bring public scrutiny. Leading practice is to require exception approvals when costs exceed established cost or weight thresholds.</p>	Potentially excessive relocation packages increasing University expenses	We recommend guidelines for expense thresholds for each category are explicitly stated, and standardizing the format of offer letters so that training can be done with processors on how to apply limits in practice.