



Internal Audit Report - Systemwide

ANNUAL REPORT ON EXECUTIVE COMPENSATION & G-45 CHANCELLOR'S ALLOCATIONS

Report No. SC-11-03

April 2011

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April 18, 2010

ASHISH SAHNI,
Assistant Chancellor/Chief of Staff

Re: SC-11-03 – Annual Report on Executive Compensation & G-45 Chancellor ‘s Allocations

Dear Ashish:

Internal Audit & Advisory Services (IAS) has completed its review of UCSC’s *Annual Report on Executive Compensation for 2010* (AREC) and the two G-45 Chancellor Reports: the *Annual Report of Fiscal Year Expenses* for Fiscal Year 2010, and the *Annual Report of Taxable Expenses of the Chancellor* for the year ended October 31st, 2010 to evaluate completeness and accuracy of the AREC and Chancellor Reports, and compliance with University Policy G-45. A copy of the report is attached.

Overall, the AREC and G-45 reports were found to be complete, accurate, and in compliance with policy. Processes were in place to ensure proper approval and accurate recording of expenses incurred by the chancellor and AREC members. In addition, campus senior executives reviewed were in compliance with university travel and entertainment expense policy.

We would like to express our appreciation to the Chancellor’s Office staff as well as the Academic Personnel Office for their cooperation and assistance throughout this engagement.

Sincerely,

Barry Long, Director
Internal Audit & Advisory Services

Attachment

Ashish Sahani
April 18, 2011
Page Two

Distribution:

Senior Auditor Desouches
Assistant Vice Chancellor Eckert
Assistant Vice Chancellor Lew
Director MacFarlane
Assistant Vice Chancellor Peterson

UCSC Audit Committee:

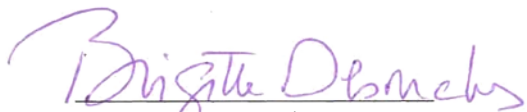
Special Assistant Beaston
Vice Chancellor Delaney
Vice Chancellor Doyle
Vice Chancellor Margon
Vice Chancellor McGinty
Assistant Vice Chancellor Moreno
Vice Chancellor Murphy
UCOP SVP Vacca
Vice Chancellor Vani

**ANNUAL REPORT ON EXECUTIVE COMPENSATION
& G-45 CHANCELLOR'S ALLOCATIONS**

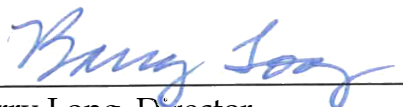
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Approved:



Brigitte Desouches
Senior Auditor,



Barry Long, Director
Internal Audit & Advisory Services

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I. EXECUTIVE SUMMARY

Internal Audit & Advisory Services (IAS) has reviewed UCSC's *Annual Report on Executive Compensation for 2010* (AREC) and the two G-45 Chancellor Reports: the *Annual Report of Fiscal Year Expenses for Fiscal Year 2010*, and the *Annual Report of Taxable Expenses of the Chancellor* for the year ended October 31st, 2010 to evaluate completeness and accuracy of the AREC and Chancellor Reports, and compliance with University Policy G-45.

Also included was an evaluation of processes for approving the expenses incurred by the chancellor and a review of compliance with travel and entertainment expenses incurred by executives registered in the Senior Leadership Information System (SLIS). This review was requested by the UC President as a part of a systemwide audit conducted by each UC campus internal audit organization.

Overall, the AREC and G-45 reports were found to be complete, accurate, and in compliance with policy. Processes were in place to ensure proper approval and accurate recording of expenses incurred by the chancellor and AREC members. In addition, campus senior executives reviewed were in compliance with university travel and entertainment expense policy.

A summary of the detailed results is described in section III. of this report. There are no Management Corrective Actions identified or required as a result of our review.

II. INTRODUCTION

A. Purpose

The purpose of this audit was to:

- Review and evaluate the completeness and accuracy of the contents of the *Annual Report on Executive Compensation* for the calendar year 2010.
- Review and evaluate for completeness and accuracy the *Annual Report of Fiscal Year Expenses of the Chancellor* for compliance with BFB G-45 for Fiscal Year 2010 (FY10).
- Review and evaluate the *Annual Report of Taxable Expenses of the Chancellor* for the period November 1st, 2009 through October 31st, 2010.
- Review compliance with travel and entertainment regulations and policies of expenses incurred by executives registered in the Senior Leadership Information System.

- Review and evaluate the approval processes of the chancellor and the Associate to the Chancellor (AOC) expenses.

B. Background

In accordance with the reforms over executive compensation initiated in 2006 by the UC Office of the President (UCOP), each campus is required to report annually on compensation paid to executives. The *Annual Report on Executive Compensation (AREC)* is a report based on data input to the Senior Leadership Information System (SLIS). The SLIS database is hosted by UCOP and is available to each campus via a web interface. The format and content of the AREC report is set by UCOP. Each year UCOP issues a letter prescribing the criteria for selection of the executives appearing in the AREC report. In 2010, the UC Santa Cruz AREC population was its entire Senior Management Group (SMG).

From the same 2006 reforms, each campus is required by G-45 to report annually on expenses of the chancellor associated with his or her official residence, and on other expenses, such as entertainment, travel and gift expenses that are related with his/her particular hospitality duties as a chancellor. These reports address appropriate use of funds available to chancellors in support of their official duties and address those expenses that may create additional taxable income for chancellors.

In addition, this year UCOP has requested a compliance review of travel and entertainment expenses incurred by SLIS members.

At UCSC, the Office of Planning & Budget (P&B) is responsible for preparing the *Annual Report of Fiscal Year Expenses of the Chancellor*; and the Office of the Chancellor is responsible for preparing the *Annual Report of Taxable Expenses of the Chancellor*. Once prepared, these reports are submitted to the Accounting Services director for review before submission to UCOP.

In addition to preparing the taxable expenses report, the Chancellor's Office is responsible for accurately recording and coding all expenses regulated by G-45; ensuring that the appropriate approvals have been given; documenting events hosted by the chancellor and University House events; and monitoring back-up documentation.

C. Scope

The scope of the audit included:

- A review of the 2010 Annual Report on Executive Compensation (January 1st, 2010 to December 31st, 2010). There are 12 executives on the UCSC campus who are included in the AREC report. All are SMG's.
- A review of the two G-45 reports:
 - a. The *Annual Report of Fiscal Year Expenses of the Chancellor* for the fiscal year 2010 (July 1st, 2009 to June 30th, 2010).
 - b. The *Annual Report of Taxable Expenses of the Chancellor* (November 1st, 2009 to October 31st, 2010).
- A review of executive travel and entertainment expenses for a sample population including all SLIS not just AREC members. The time period we chose was July 1st, 2009 to December 31st, 2010.

We conducted interviews with employees from the Academic Personal Office (APO), the Chancellor's Office, Planning & Budget, and the Payroll Office. We reviewed policies, actual reports, supporting documentation, report preparation methodology, and approval processes. We conducted limited transaction testing with a focus on the accuracy of amounts reported, the appropriateness of inclusion in the report, compliance with policies, appropriate approval levels and back-up documentation.

D. Examples of Positive Results Observed

- We found the Senior Management Group Coordinator and APO staff maintaining the same level of thoroughness and organization in their handling of the AREC reports we observed in the previous year audit.
- No errors were found in the workbook created by P&B in preparation for the G-45 report.
- The Chancellor's Office staff maintained the same rigorous approval processes of expenses for the Chancellor and the Associate of the Chancellor (AOC) as was observed in the previous year audit.
- Accounting Services continues to have one specialist employee assigned to process expenses reimbursement to the Chancellor and the AOC.

III. DETAILED RESULTS

AREC: Interview with APO - Responsibilities	
Work Performed	Results
Reviewed APO responsibilities for possible changes or new challenges.	No change, APO controls all matters concerning SMG and AREC population: hiring conditions, employment privilege, information and education of executives, and training of staff. Instructions to Payroll and units come from APO. APO is responsible for all information in SLIS and prepares all items going to the Regents. No control weakness was identified.
AREC: Accuracy of Report population	
Report population is selected from SLIS list population according to criteria issued each year by UCOP. We reviewed the controls used by APO to ensure the completeness and accuracy of the SLIS and AREC list.	<p>The SLIS at UCOP is updated once a week from PPS for changes in title codes (not amounts of compensation). AT UCSC, only one APO staff enter all compensation updates in the SLIS program.</p> <p>APO monitors monthly campus gross pay for any sudden increase in salary above the compensation index determined by UCOP (\$218K for 2010).</p> <p>APO keeps past AREC members in SLIS list for more accurate selection in case of occasional fluctuations of income.</p> <p>Due to the small size of the UCSC campus, the APO AVC is able to maintain a personal one on one relationship with members of SLIS group and is aware of compensation details for each.</p>

AREC: Accuracy of Report population (continued)	
Work Performed	Results
<p>We performed a series of reviews and comparisons from different sources of data in order to assess accuracy.</p> <ol style="list-style-type: none"> 1) Compared 2009 & 2010 AREC population to identify changes and their justification. 2) Reviewed payroll data for SLIS population not included in AREC report to assess justification of non-inclusion. 3) Reviewed PPS report for possible identification of employees with compensation higher than threshold to ensure no one was omitted from AREC population. 	<p>No issues related to the accuracy or appropriateness of the 2010 AREC populations were identified.</p>
AREC: Accuracy of Reported Compensation	
<p>Reviewed APO methodology to prepare the AREC report.</p>	<p>Compensation Summaries are generated from SLIS and Potentially Compensable Transactions (PCT) questionnaires are sent to executives for review and certification. Responses are reviewed by APO Assistant VC with possible follow-up.</p> <p>The APO Analyst pulls a Payroll Activity Report for the year for review of any irregularities in payroll.</p> <p>The APO Analyst prepares the AREC draft report. The AVC reviews the draft report with the chancellor who needs to certify the population.</p> <p>The finalized and certified (by the chancellor) AREC report was submitted to UCOP before the due date.</p>

AREC: Accuracy of Report Compensation (continued)	
Work Performed	Results
<p>Obtained two listings of compensation and compared them with compensation reported on the AREC.</p> <ol style="list-style-type: none"> 1) Compared AREC data with individual DOPE reports of the AREC population. 2) Calculated individual compensations from DOS codes summary report and compared to AREC data. 	<p>No issues related to the accuracy of the reported AREC compensations were identified.</p>
<p>Verified the accuracy of W-2 reconciliations performed by Payroll for each of member of the AREC population.</p>	<p>The process of reconciliation could be retraced and no issues were identified.</p>
<p>Compared data between 2010 W-2 "Gross Earnings" and the "Subtotal Cash Compensation" of AREC report for identification of differences.</p>	<p>All differences could be legitimately explained.</p>
<p>Searched for other expenses that should be included in the AREC report:</p> <ol style="list-style-type: none"> 1) Extracted direct payments data for AREC population for possible identification of non reported moving expenses or other payments that could be related as possible compensation. 2) Confirmed with Financial Affairs that no such payments were identified during the year. 	<p>There were no moving expenses for SMGs in 2010. No other payments were identified as possible compensation.</p>
AREC: Compensation Summaries, PCT Questionnaires & Certifications	
<p>Reviewed the Compensation Summary and PCT questionnaire in each of SMG files stored at APO to verify the questionnaire was completely filled out and both forms were certified by SMG dated signature.</p>	<p>All questionnaires were completely filled out without exception. Data was certified by each SMG. We found an error in the date of certification for one of them. The APO had this promptly corrected.</p>

AREC: Compensation Summaries, PCT Questionnaires & Certifications (continued)	
Work Performed	Results
<p>Verified the accuracy of a number of allowances and benefits figuring in the AREC report.</p>	<p>An error in the amount of University-Provided Home Mortgage to one of the executive was promptly corrected by UCOP. No other errors were identified.</p> <p>We found that the Mortgage Origination Program (MOP) loan amount was always reported in the AREC report but not always in the individual certification. UCOP confirmed that this was indeed the case, however this was not an issue of incomplete data because the AREC template in SLIS provided the complete information.</p>
<p>Verified the certification of final 2010 AREC report.</p>	<p>The report was fully signed and dated by the chancellor and the APO Assistant VC, prior to the report date due of March 11, 2011.</p>
SLIS Population: Review of Travel & Entertainment Expenses	
<p>Tested 20 travel and entertainment transactions for period July 2009 to December 2010 for compliance with UC policy.</p> <p>Testing criteria: University purpose, reasonable expense, correct travel period, timely submission, appropriate use of account code, adequate Banner Text explanation and approval signatures.</p>	<p>No departures from BUS-79 and G-28 were identified in the 20 transactions reviewed.</p> <p>We verified approval signatures for eight of the 20 transactions in the paper files stored at FAST. All eight transactions were properly approved.</p>

G-45: Fiscal Year Expenses of the Chancellor - Review of P&B G-45 Preparation Workbook	
Work Performed	Results
<p>Reviewed P&B report building procedure and its application to the process of sorting which expenses to use in the report and which to exclude. Reviewed included and excluded expenses from the P&B workbook and met with P&B analyst.</p> <p>Extracted independent data to verify that all direct payments to Chancellor and Associate of the Chancellor (AOC) have been included in the workbook. Repeated the process for UCLA travel journals.</p> <p>Conducted a first review of all expenses, then prepared a testing selection.</p>	<p>No issues of inaccuracy or lack of adherence to report building procedure were identified.</p> <p>List of “Excluded Expenses” seemed adequate.</p> <p>Using transactions independently extracted by auditor, the following was confirmed: All 45 direct payments to Chancellor were included in P&B G-45 Preparation Workbook. All 8 direct payments to AOC were included. All UCLA travel journals were included (17 line items for Chancellor and AOC).</p> <p>21 transactions were selected for detail testing (General Household, Entertainment in and out of University House, hosted and not hosted by Chancellor, Travel, Gifts, AOC expenses) - See Detail Testing below.</p>
G-45: Fiscal Year Expenses of the Chancellor - Transactions Detail Testing	
<p>Tested 13 samples from the 21 transactions selected with the following criteria:</p> <ol style="list-style-type: none"> 1) Appropriate approval of transactions (adhering to specific approval protocol for chancellor and AOC) - (11 transactions). 2) Documentation of “Significant Involvement” in university activities for AOC expenses - (Two transactions). 3) Any error, coding error, etc... 	<p>11 of the 11 transactions reviewed in the paper files stored at FAST, showed compliance to approval protocol for chancellor and AOC.</p> <p>Both AOC “Significant Involvement” in university activities reviewed were appropriately documented.</p> <p>No coding errors were identified.</p>
G-45: Fiscal Year Expenses of the Chancellor - Review of Events Report	
<p>Reviewed 14 entertainment expenses from the 21 transactions selected to verify that these events were properly recorded in the Events Reports kept by the University House Coordinator.</p>	<p>10 of the 14 entertainment transactions matched in both records (Events Report and G-45 Workbook). The remaining four errors/omissions on the Events Report did not have a numerical impact on the G-45, only an immaterial coding impact. The Events Report was promptly adjusted by the Chancellor’s Office staff to correct the data.</p>

G-45: Fiscal Year Expenses of the Chancellor - Procedures	
Work Performed	Results
<p>Reviewed with the Chancellor’s Office staff the three procedures reviewed/created during the previous year audit for usefulness and compliance:</p> <ol style="list-style-type: none"> 1) Reimbursement and tracking of AOC expenses. 2) Preparation of the Taxable Expenses of the Chancellor report. 3) University House Events Documentation. 	<p>Procedures related to the processing and tracking of AOC expenses, and to the Taxable Expenses of the Chancellor report seemed used and applied.</p> <p>Chancellor’s Office staff however identified some unworkable aspects in the University House Events documentation procedure. A new procedure that was easier to apply and more efficient was created by the staff and reviewed by auditor.</p>
G-45: Taxable Expenses of the Chancellor	
<p>Met with Chancellor’s Office staff to review recording process of Chancellor’s taxable expenses and preparation of report.</p> <p>Reviewed ledger of expenses from P&B workbook to identify any possible Chancellor’s personnel taxable expenses, especially the areas of personal, and equipment expenses.</p>	<p>During Fiscal Year 2010, the Chancellor’s Office maintained the same internal policy of “No personal use of University funds by the Chancellor”. The Annual Report of Taxable Expenses of the Chancellor reports zero personal taxable amounts and is certified by the chancellor.</p> <p>Every quarter, the University House Coordinator fills out a “Report of Staff Time Devoted to Personal Services Performed for the Chancellor”. No personal time was recorded in the documents signed by the coordinator and the chancellor.</p> <p>The chancellor certifies a yearly “Officer’s Report of Personal Use of University-owned Equipment”. No personal use of equipment was reported and signed by the chancellor</p> <p>The review of the P&B workbook of expenses and transactions did not reveal potential personal expenses that were unaccounted for.</p>
