

UC MERCED AUDIT AND ADVISORY SERVICES

April 8, 2016

To: Luanna Putney – Associate Chancellor
Brian Powell – Assistant Vice Chancellor of Human Resources

Subject: Audit of Executive Compensation

Ref: Report No. M16A008

Internal Audit has completed an audit of executive compensation that reviewed the Annual Report of Executive Compensation (AREC) for 2015 and the Annual Reports of Expenses for the Chancellor which are required by UC Policy G-45.

We appreciate the help we received from the campus Senior Management Group Coordinator in Human Resources and Business and Financial Services staff during this review.



Todd Kucker
Director of Internal Audit

Attachment

cc: SVP Vacca
Chancellor Leland
Vice Chancellor Reese
Controller and Assistant Vice Chancellor Riley
Director Bustos
Associate Director Kinsman
Manager Patino
Analyst Akers

**UNIVERSITY OF CALIFORNIA, MERCED
AUDIT AND ADVISORY SERVICES**

Executive Compensation
Report No. M16A008

April 8, 2016

Work performed by:
Brandi Masasso, Internal Auditor

Purpose and Objectives

Internal Audit has completed a review of executive compensation at UC Merced. This audit was part of the Fiscal Year 2015 – 2016 audit plan and is completed every year at UC Merced. The purpose was to verify that reported executive compensation information was accurate and complete. 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; and,
- Evaluate and verify W-2 reconciliations are prepared and completed accurately and timely.

Background of Required Reporting

Annual Report on Executive Compensation

The University of California is legally obligated to present the compensation of its senior managers to the state legislature and to the public. This information is annually disclosed on the Annual Report of Executive Compensation (AREC).

Annual Reports of Expenses of the Chancellor

The Regents of the University of California recognize the unique role of the Chancellors in representing the University. In performance of this role, the Chancellors are called upon to extend official hospitality to important visitors, and to entertain guests of the University in conjunction with alumni and development activities, campus events, and other official functions.

In consideration of the duties and responsibilities of the Chancellors, the Regents provide each Chancellor with suitable housing to enable the individual to perform the administrative, ceremonial, and social functions required of the position. The Chancellors are required to occupy that housing as a condition of employment and for the convenience of the University.

BFB G-45 Implementing Requirements of Expenses Incurred in Support of Official Responsibilities of the Chancellors specifies procedures for identifying and reporting expenses of the Chancellor in association with their official residence, as well as addressing those expenses that may create additional taxable income for the Chancellor.

Scope of Testing

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

1. *Annual Report on Executive Compensation (AREC) for Calendar Year 2015*
The AREC provides detailed compensation data on the Senior Management Group (SMG) population and non-SMG's with annual income over \$301,000 (threshold established for 2015). 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 included 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 the W-2 Reconciliation packages prepared by the Payroll Office*

This includes a detailed reconciliation of the 2015 earnings of each of the Senior Management Group (SMG) employees and other applicable employees whose compensation (over \$301,000) must be disclosed in the annual report to the regents.

The scope of the audit covered activities occurring in the calendar year 2015 for the AREC, Fiscal Year 2014 – 2015 for the fiscal report, and November 1, 2014 to October 31, 2015 for the taxable report.

Conclusion

From our audit, we concluded that processes for the preparation of the AREC and Annual Reports of Expenses of the Chancellor are adequate to ensure accuracy and completeness. We did not identify issues during the review of the AREC and Annual Reports of the Expenses of the Chancellor.

A recent California state audit has recommended: "To improve the transparency and timeliness of its annual compensation report, the University [of California] should streamline the processes

it uses to prepare the report so it can be issued by April of each year.” We recommend communicating to the Senior Management Group that they will most likely need to complete their certifications sooner after year end during the years ahead.