

**UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT & MANAGEMENT ADVISORY SERVICES**

**Annual Report on Executive Compensation (AREC)
Audit & Management Advisory Services Project # 25-06**

November 2024

Fieldwork Performed by:

Katie McLeod, Campus Audit Manager

Reviewed by:

Tony Firpo, Associate Director

Approved by:

Ryan Dickson, Director

**Annual Report on Executive Compensation
Audit & Management Advisory Services Project # 25-06**

Management Summary

As part of the fiscal year 2025 (FY2025) Audit Plan, Audit and Management Advisory Services (AMAS) conducted a review of the Annual Report on Executive Compensation (AREC) for calendar year 2023.

The AREC provides compensation data for executive personnel, as defined by the 2023 AREC guidelines provided by the Office of the President (OP). In accordance with OP's annual guidelines, each campus location must develop a list of reportable employees. The reportable population includes the Senior Management Group (SMG); all policy-covered staff whose total compensation exceeds the reporting threshold of \$387,700; and other specified employees, including athletic directors, coaches, and other athletic positions. The report excludes staff physicians, academic deans, and the provost. Total compensation must be reported, including salary; bonuses and incentives; one-time payments or reimbursements made to the employee or on behalf of the employee; and any benefits and perquisites. UC Davis Human Resources (UCD HR) populates the compensation data into the required form and provides the location certification to OP Office of Executive Compensation (OEC). OEC prepares the AREC using the location certifications.

Purpose and Scope

As in past years, the objectives of the AREC review were to determine if:

- Compensation data submitted in the annual report is complete and accurate.
- Appropriate procedures have been developed and performed to ensure submitted data has been accumulated and reported in accordance with the Office of the President (OP) instructions.
- Reporting anomalies are properly footnoted and explained, in accordance with OP instructions.

To perform our review, we:

- Interviewed and followed-up with the UC Davis HR Management and OEC.
- Independently identified reportable employees for the period, and validated compensation reported using UC Path reports and the OP Compensation Database.
- Compared the 2021 AREC to the 2023 AREC for consistency and reasonableness of information reported.

Our review was performed in 2024 and included activities and transactions occurring in calendar year 2023.

Conclusion

UCD HR compiled the list of reportable employees, calculated compensation, and submitted the local AREC certification, in accordance with the OP's annual AREC guidelines. However, AMAS identified reporting errors during the current audit. The prior FY2021 audit found similar errors. UCD HR worked with OEC to update their procedures to address prior audit issues; however, the additional procedures do not effectively mitigate the risk of errors or omissions, as indicated by the current audit results. The current audit revealed that the 2023 AREC did not include a complete

list of reportable employees and identified an instance of inaccurate compensation data.

Observations, Recommendations, and Management Corrective Actions

A. UC systemwide controls for identifying reportable employees and developing compensation data are not sufficient to ensure complete and accurate reporting.

The 2023 UCD campus location report missed three reportable employees, one employee's compensation was misstated, and the individual certifications for three employees did not match reported compensation totals.

Mid-December each year, UCD HR works with UCD Payroll to pull compensation data and develop a reportable employee list for OEC. The 2023 reportable employee lists were due on December 15, 2023, and were compiled using incomplete (i.e., partial year) compensation data. Each campus location must conduct additional steps to estimate whether any other qualifying employees might exceed the threshold for reporting. OEC does not provide standard financial reports to assist with those additional steps.

AREC reportable employee compensation amounts are calculated annually and include all compensation as of the final paycheck date for the calendar year. However, data must be pulled prior to year-end to meet a deadline imposed by the UC Path Center. The timing of data development for identifying reportable employees makes it difficult to ensure accuracy and completeness of reporting. Furthermore, the current process requires additional steps after year-end to mitigate the risk of reporting errors and omissions.

As a result, although UCD HR updated their processes to address prior audit issues and completed additional steps after year-end to ensure complete and accurate reporting, the 2023 AREC did not include all reportable UCD employees. Three MSP employees who exceeded the reporting threshold of \$387,700 were not included as required. In addition, as noted above, there was a misstatement of one employee's total compensation, and individual certifications for three employees did not match the AREC report (See Observation 'B' for details).

Recommendation

OEC should:

1. Develop and implement the use of standard financial reports to support the AREC, improve efficiency, ensure consistency and accurate reporting, system wide.
2. Review and update the current procedures and timelines for developing AREC data and compiling the reportable employee lists for each campus location to improve efficiency, completeness, and accuracy of annual AREC reporting.

Management Corrective Actions

Because the observation is for processes managed by OEC, this management corrective action has been forwarded to ECAS for follow-up and close-out.

1. By August 15, 2025, OEC will develop and implement the use of standard financial data reports to support the AREC, improve efficiency, ensure consistency and accurate reporting, system wide.
2. By August 15, 2025, OEC will review and update the current procedures and timelines for developing AREC data and compiling the reportable employee lists for

each campus location to improve efficiency, completeness, and accuracy of annual AREC reporting.

B. UCD HR Monitoring procedures are not effective in mitigating the risk of errors for AREC reporting.

The 2023 AREC location certification included one employee whose compensation data was overstated by approximately \$66,000, and three reportable employees were omitted (See Observation 'A'). In addition, the individual certifications for three reportable employees did not support the numbers reported in the location certification. This resulted from the timing of when the certifications were completed. Without oversight and reconciliation, the risk of error increases significantly.

In accordance with OP's annual guidance, UCD HR works with OEC to compile UCD's annual AREC reportable employee list and compensation totals. (See Observation 'A' for details). The reportable employee list and related compensation amounts are supported with individual certifications, signed by each employee, and their W2s for the period. Once UCD HR has completed the reportable employee list and calculated and verified each employee's compensation, they submit the AREC location certification report to OEC, which is combined with other location certifications to create the systemwide AREC.

UCD HR does not have a monitoring process in place that provides oversight of the UCD location certification to ensure complete and accurate reporting. Although UCD HR works closely with OEC to develop the reportable employee list, compensation data, individual certifications, and complete W-2 reconciliations, UCD HR did not identify reporting errors prior to submitting the location certification to OEC. This resulted in the 2023 AREC reporting errors noted above.

Recommendation

UCD HR should:

1. Develop and implement a reconciliation and monitoring process to ensure the UCD location certifications are complete, accurate, and supported with required documentation.
2. Develop and submit a summary and status of the errors to OEC to ensure the 2023 AREC errors are accurately noted in the 2024 report.

Management Corrective Actions

1. By August 15, 2025, HR will develop and implement a reconciliation and monitoring process to ensure the UCD location certifications are complete, accurate, and supported with required documentation.
2. By August 15, 2025, HR will develop and submit a summary and status of the errors to OEC to ensure the 2023 AREC errors are accurately noted in the 2024 Report, which will be issued in calendar year 2025.
