



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

May 13, 2022

To: Shenethia Manuel, Interim Associate Vice Chancellor, Chief Human Resource Officer  
Kurt Schnier, Interim Vice Chancellor and Chief Financial Officer  
Subject: Executive Compensation – Chancellor Expenses Internal Audit  
Ref: UC Merced Audit Report No. M22A005

Internal Audit completed the audit of the Annual Report of Executive Compensation (AREC), and compliance with University of California (UC) Policy BFB G-45, *Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors* as part of the fiscal year (FY) 2021 – 2022 Audit Plan.

Attached is the subject report. We appreciate the help we received from all personnel involved. If you have any questions, please feel free to contact me.

Respectfully reported,

A handwritten signature in cursive script that reads "Sheryl Ireland".

Sheryl Ireland  
Internal Audit Director

cc Senior Vice President and Chief Audit and Compliance Officer Bustamante  
Chancellor Muñoz  
Associate Chancellor and Chief of Staff Putney  
Assistant Vice Chancellor and Controller Preston-Nelson



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

**Executive Compensation – Chancellor Expenses Audit Report  
Audit No. M22A005**

May 13, 2022

Audit Conducted by:  
Shelton Autry – Senior Internal Auditor

Audit Reviewed by:  
Sheryl Ireland – Internal Audit Director

## Executive Compensation – Chancellor Expenses Audit Report

### Audit No. M22A005

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#### I. MANAGEMENT SUMMARY

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As part of the University of California, Merced (UC Merced) 2021 – 2022 fiscal year internal audit plan, Internal Audit performed a planned audit of the Annual Report of Executive Compensation (AREC) and evaluated the completeness and accuracy of the two financial reports required in UC Business Finance Bulletin (BFB) G-45 *Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors*.

##### AREC

Internal Audit found the AREC report for the calendar year 2020 to be complete, accurate, and in compliance with policy. Processes were in place to ensure the accurate recording of the AREC members' compensation and proper certification of accompanying documents.

##### G-45

Internal Audit noted inaccuracies with the two required G-45 reports, the *Annual Report of Fiscal Year Expenses of the Chancellor for Fiscal Year 2020-2021*, and the *Annual Report of Taxable Expenses of the Chancellor* for the period November 1, 2020 through October 31, 2021.

G-45 reporting is the responsibility of General Accounting and due to turnover in the department new individuals were tasked with completing G-45 reporting and an implementation of a new financial system occurred in January 2021. These factors contributed to lack of defined and documented processes to complete the reporting completely and accurately.

Detailed observations and management corrective actions are included in the following sections of the report.

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#### II. BACKGROUND

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##### Annual Report on Executive Compensation (AREC)

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 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 2020 the UC Merced AREC population was the 10 members of the Senior Management Group (SMG).

At UC Merced, the responsibility for preparation of the AREC report resides with the SMG coordinator in Human Resources.

BFB G-45

Each campus is required by G-45 to report annually on the expenses of the chancellor associated with his or her official residence, and for other expenses, such as entertainment, travel and gift expenses that are related with his/her particular hospitality duties as a chancellor.

These reports address the 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.

At UC Merced, General Accounting is responsible for preparing the Annual Report of Fiscal Year Expenses of the Chancellor and the Annual Report of Taxable Expenses of the Chancellor.

The Chancellor's Office is responsible for accurately recording and coding all expenses regulated by G-45. General Accounting is responsible for accurately completing required reporting as regulated by G-45 and providing the Chancellor's Office with the appropriate tools to accurately record G-45 expenses.

Oracle Financial Systems

Oracle is the new financial system used by UC Merced. Oracle officially went live on January 4, 2021. This implementation affected all areas of campus activity including purchasing, travel, accounting, budgeting, and reporting. Specifically, this affected the reporting for G-45 expenses as a new reporting process was required to be implemented, and accounting for G-45 expenses changed under the new Common Chart of Accounts (CCoA).

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**III. PURPOSE, OBJECTIVES AND SCOPE**

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The purpose and objective of the audit was to verify that adequate processes and internal controls are in place to assure completeness, accuracy, and compliance of AREC and G-45 reporting.

The audit scope included review of the calendar year 2020 AREC report, the Annual Report of Fiscal Year Expenses of the Chancellor for Fiscal Year 2020-2021, and the Annual Report of Taxable Expenses of the Chancellor for the period November 1, 2020 through October 31, 2021.

To accomplish the audit objectives and scope as documented above, Internal Audit performed the following procedures:

AREC

- Reviewed the selected AREC population list against campus administrative and academic org charts for 2020, and UC Path payroll records.
- Reviewed the selected AREC population list against a list of campus top earners to ensure that no "non-SMG" had been mistakenly excluded.
- Reviewed the compensation for the individuals included on the AREC for calendar year 2020 to verify the different types of compensation received by each of them.
- Obtained W-2 reconciliations performed by UC Path Center - Production Office for each of the AREC executives and compared with payroll records.

- Reviewed all signed *AREC 2020 Individual Certifications and the Potentially Compensable Transactions Individual Certifications* (PCT) for accuracy and proper certification.
- Reviewed all new SMG appointments and/or changes in compensation for SMGs for approval from the UC Regents.

#### G-45

- Reviewed G-45 reports as submitted to UCOP and recalculated balances using auditor query of transaction data to verify the accuracy and completeness of the G-45 reports.
- Reviewed data preparation and report building procedures and the identification of expenses to include in the report. Reviewed included and excluded expenses.
- Reviewed the preparation and review process for G-45 reports with General Accounting.
- Reviewed the yearly “Report of Staff Time Devoted to Personal Services Performed for the Chancellor.”
- Reviewed the yearly “Officer’s Report of Personal Use of University-owned Equipment.”
- Tested a sample of G-45 expenses to supporting documentation for completeness, accuracy, and appropriate accounting.
- Performed data analytics over procurement data to identify expenses that may be missing from G-45 reports.

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## IV. CONCLUSION

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### AREC

Internal Audit found the AREC report for the calendar year 2020 to be complete, accurate, and in compliance with policy. Processes were in place to ensure the accurate recording of the AREC members’ compensation and proper certification of accompanying documents.

### G-45

Based on the results of the work performed within the scope of the audit, we identified that General Accounting did not appropriately prepare complete and accurate G-45 reports and did not have in place an appropriate process or internal controls to adequately formulate complete and accurate G-45 reports.

Observation details were discussed with management, who formulated action plans to address the issues. Details are presented below.

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## V. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

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### 1. G-45 Reporting Process

#### **Background**

BFB G-45 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. Additionally, BFB G-45 summarizes and incorporates by reference other existing University policies governing allowable expenses incurred by the Chancellor. It also addresses the appropriate use of

the funds available to the Chancellor in support of official duties and the required reports for documenting the use of those funds.

On an annual basis, Appendices A and B must be completed to account for all the expenses incurred by the Chancellor and his Associate. Appendix A includes all the following expenses:

- Housing expenses of the Chancellor
- Travel expenses
- Entertainment expenses incurred outside of the Chancellor's residence
- Gift expenses
- Membership expenses
- Expenses of the Associate of the Chancellor
- Other expenses

The total amount of the expenses reported on Appendix A for the previous fiscal year must be submitted to Business & Financial Services by September 1 of the current year. In addition, Appendix B reports all the taxable personal-benefit expenses that are incurred by the Chancellor for support staff and equipment expenses between November 1 of the prior year and October 31 of the current year. Appendix B must be submitted to Business & Financial Services by November 15 of each year.

### **Observation**

Based on the results of the work performed within the scope of the audit, we identified that there was no documented process for reporting from Oracle for G-45 reporting, and no review process was noted in General Accounting. This led to the following errors:

#### Annual Report of Fiscal Year Expenses of the Chancellor:

- \$694 of "Other" expenses were not reported due to administrative error.
- Two invoices totaling \$7,879 were not identified or reported due to reporting deficiencies.
- Two expenses tested totaling \$17,421 had service dates in the preceding fiscal year.

#### Annual Report of Taxable Expenses of the Chancellor:

- \$937 of Cable TV & Internet Connection expenses not reported due to the expenses not being entered into the GL before reporting was completed. This error also resulted in a modified report being sent after the due date in January 2022.
- \$272 of Telephone expenses not reported due to an administrative calculation error.
- \$105,682 of "Other" expenses that should not have been reported in this report.

### **Recommendation**

We recommend that General Accounting perform the following:

- Identify and build reporting tools within Oracle to appropriately identify and report G-45 expenses.
- Develop a robust review process with segregation of duties in the preparation and review of the G-45 reports.
- Document the process to prepare and review the G-45 reports according the BFB-G-45.

**Management Corrective Action:**

- In April 2021 a new sub-activity code was created in Oracle to appropriately identify and report G-45 expenses. Internal Audit reviewed this sub-activity code in the expense listing from the audit period and noted its use from April 2021 and beyond with no missing expenses identified. This MCA was implemented before the issuance of this report.
- By August 16, 2022, General Accounting will conduct a training to entry-point UC Merced team members with emphasis on the importance of the sub-activity code for accurate reporting.
- By August 16, 2022, General Accounting will develop G-45 reporting procedures with the requirements in BFB-G-45 utilizing the Oracle financial system. This will include management-level review prior to submittal.