



AUDIT AND ADVISORY SERVICES
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October 27, 2020

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Ethics, Compliance and Audit Services
University of California Office of the President

Carol Christ
Chancellor
University of California, Berkeley

Senior Vice President Bustamante and Chancellor Christ:

We have completed our audit of annual reporting on Chancellor's expenses as required by university policy Business and Finance Bulletin (BFB) G-45 and as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observation with management action plans are expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of the Office of the Chancellor for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Jaime Jue
Director

cc: Associate Chancellor and Chief of Staff Khira Griscavage
Deputy Associate Chancellor and Chief Operations Officer Wanda Ellison Crockett
Interim Controller Elizabeth Chavez



AUDIT AND ADVISORY SERVICES

Chancellor's Expenses (BFB-G-45)

Audit

Project No. 20-745B

October 27, 2020

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**University of California, Berkeley
Audit and Advisory Services
Chancellor’s Expenses (BFB-G-45)**

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OVERVIEW

Executive Summary

The purpose of our audit was to review the campus' Annual Report of Fiscal Year Expenses for the President/Chancellor for fiscal year July 1, 2018 through June 30, 2019 and the Annual Report of Taxable Expenses for the President/Chancellor for the period of November 1, 2018 through October 31, 2019, both of which are required by university policy BFB-G-45, *Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors*. The annual reports were reviewed for completeness and accuracy relative to amounts recorded in the campus general ledger and supporting documentation.

Based on our audit procedures performed, we observe the preparation, review, and approval of the Annual Report of Taxable Expenses appears overall to be operating effectively for the 2019 reporting period to ensure completeness and accuracy of reporting.

With respect to the Annual Report of Fiscal Year Expenses, the processes for preparing, reviewing, and approving the report appears to be generally operating effectively for the 2019 reporting period. However, we noted similar observations as previous years' reviews related to the timely completion and submission of the Chancellor's entertainment expenses to the campus Controller's Office for review and approval.

Source and Purpose of the Audit

The purpose of our audit was to review the campus' Annual Report of Fiscal Year Expenses for the President/Chancellor for fiscal year July 1, 2018 through June 30, 2019 and the Annual Report of Taxable Expenses for the President/Chancellor for the period of November 1, 2018 through October 31, 2019, both of which are required by university policy BFB-G-45, *Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors*. The annual reports were reviewed for completeness and accuracy relative to amounts recorded in the campus general ledger and supporting documentation.

Scope of the Audit

The scope of our review included reportable expenses and the housing provision associated with the official duties of the Chancellor that are required to be tracked and reported according to BFB-G-45. The reporting period for the Annual Report of Fiscal Year Expenses is the university fiscal year; whereas the reporting period for the Annual Report of Taxable Expenses covers the twelve months from November to October.

Our audit procedures included, but were not necessarily limited to, the following:

- obtaining copies of the 2019 reports and attachments;
- obtaining an understanding of management's process to collect and record amounts reported on the 2019 reports;
- independently extracting expense information from the general ledger related to reportable categories;
- comparing expense information from the general ledger with that reported on the 2019 reports and inquiring with management on any differences including the root cause;
- assessing the overall accuracy and completeness of the amounts reported on the 2019 reports; and
- assessing whether reportable deficiencies or significant deficiencies existed in management's process and internal controls related to the preparation, review, approval, and submission of the 2019 reports.

Our fieldwork was conducted in April and May 2020.

Background Information

University policy BFB-G-45 states that the university intends "to comply with Internal Revenue Service regulations concerning the provision of housing and payment of expenses associated with the official duties of the President and Chancellors." The policy requires each campus to use standardized expense categories in their general ledger to track expenses related to these reportable categories. The campus has a range of Chartfield 1 and Chartfield 2 values in the campus general ledger system to track reportable expenses by category. Each campus must prepare an Annual Report of Fiscal Year Expenses and Annual Report of Taxable Expenses using templates provided in the policy.

Summary Conclusion

Based on our audit procedures performed, we observe the preparation, review, and approval of the Annual Report of Taxable Expenses appears overall to be operating effectively for the 2019 reporting period to ensure completeness and accuracy of reporting.

With respect to the Annual Report of Fiscal Year Expenses, the processes for preparing, reviewing, and approving the report appears to be generally operating effectively for the 2019 reporting period. However, we noted similar observations from previous years' reviews related to the timely completion and submission of the Chancellor's entertainment expenses to the campus Controller's Office for review and approval.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Timely Preparation and Approval of Entertainment Expenses

Observation

According to university policies BFB G-28 *Travel Regulations*, and BUS-79 *Expenditures for Business Meetings, Entertainment, and Other Occasions*, the campus Controller's Office is responsible for approving the Chancellor's travel and entertainment expenses. To facilitate compliance with this approval requirement, policy allows for approvals to be obtained on a monthly basis for all travel and entertainment expenses incurred during the period. Chancellor's Immediate Office (CIO) staff record travel and non-University House entertainment expenses on a monthly travel and entertainment spreadsheet which includes the details of the expense. Chancellor's entertainment expenses related to events held at the University House are detailed on a separate spreadsheet (University House event log) that is maintained by University Development and Alumni Relations (UDAR) staff. Both spreadsheets are then submitted for controller approval.

Based on our review of the submission of the Chancellor's travel and entertainment spreadsheets to the campus Controller's Office for fiscal year 2019, we observed that these spreadsheets were not being submitted monthly in accordance with BUS-79, but were instead submitted on approximately a quarterly basis (for travel and non-University House entertainment) or once annually (for University House events). In addition, although we understand the University House event log was reviewed by the controller, documented approval was not obtained.

The timeliness of expense reporting by the Chancellor's Office for controller approval is a recurring observation reported in previous audits that we understand in part pertains to turnover in the individuals preparing the reports. Another contributing factor appears to stem from apparent inconsistencies in the methodology used to prepare the spreadsheets, which may give rise to challenges and delays in verifying the completeness and accuracy of the information against the general ledger.

We recommend that the Chancellor's Office designate a single point of contact to work with the Controller's Office and UDAR to implement a methodology for expense documentation and approval that facilitates compliance with policy and the timely reconciliation of expenses to the general ledger and supporting documentation.

Management Response and Action Plan

The Chancellor's Office has reviewed the audit report and agrees with the findings. The current process of G-45 reporting requires significant effort to create, review, and submit Chancellor's transactions for approval. Additionally, the process was not aligned with the budget assumptions nor SAS 115 review procedures, which complicated the reconciliation verification process. The audit report covers FY 2019, however starting Q4 of FY 2019 to enhance controls, the division

introduced business process changes to address the timeliness and integrity of the general ledger reconciliation process.

Process enhancements include, but are not limited to, the examples below:

- CIO provides oversight of FAU information to third parties (e.g., Facilities and UDAR)
- Incorporation of G45 draft reporting into the SAS 115 review process for AACHN.
- Alignment of budgeting and expense reporting at the Deptid level:
 - DEPTID 10015 House Operations (Chancellor's G-45 expenses)
 - DEPTID 10016 House Maintenance and Reports
- Use of CF2 codes to facilitate exception reporting and/or additional expense detail.
- Collaborated with the Controller's Office on a pre-approval process for Chancellor's exceptional entertainment with planned implementation FY 21.
- Identified a key point of contact in UDAR to ensure completeness of information, invoices are submitted timely for processing by the CIO, and event packets are submitted with documentation for the reconciliation process within 14 days from the event date.
- Modified Events Packet Template to include budget, policy limits calculations, and business rationale for exceptional expenses to assist UDAR events planners.
- Developed FY 20 Chancellor travel and entertainment policy and procedures, including designing a front-end process that addresses budget and pre-approval process for the exceptional expense with planned implementation FY 21.
- Partnered with the Controller's Office to provide UDAR events planner training on accounting entertainment policies with planned implementation FY 21.

The Chancellor's Office has overhauled our G-45 process. We have streamlined and simplified key steps in the expense approval and documentation process, aligning our financial assumptions to our operations. We believe that these steps have improved the integrity of our reports and will impact the timeliness of our required deliverable. It is our hope that these improvements will address the audit findings.