

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
OFFICE OF ETHICS, COMPLIANCE AND AUDIT SERVICES



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Alexander Bustamante
SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

April 7, 2022

**EXECUTIVE DIRECTOR PLUZDRAK
DIRECTOR NIESS
DIRECTOR MURRAY**

RE: Final Report Project No. P20A001: UCOP Executive Compensation

Attached is a copy of the final report for Audit Services Project No. P20A001: UCOP Executive Compensation. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: matthew.hicks@ucop.edu).

A handwritten signature in black ink, appearing to read "Matt Hicks".

Matt Hicks
Systemwide Deputy Audit Officer

Attachment

cc: Senior Vice President Bustamante
Executive Vice President Nava
Executive Director Kalmijn
Systemwide Associate Audit Director Bishin
Team Lead Vrizuella
Systemwide Principal Auditor Sinutko
Compensation Analyst Aldrete

UNIVERSITY OF CALIFORNIA
OFFICE OF ETHICS, COMPLIANCE AND AUDIT SERVICES

UCOP EXECUTIVE COMPENSATION
Audit Project No. P20A001
March 2022

Work Performed by:
Systemwide Principal Auditor Sinutko

Work Reviewed by:
Systemwide Associate Audit Director Bishin
Systemwide Deputy Audit Officer Hicks

Executive Summary

Introduction and Background

As part of the University of California Office of the President (UCOP) 2019–2020 fiscal year internal audit plan, Internal Audit performed an audit of executive compensation at UCOP.

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

- Annual Report on Executive Compensation for Calendar Year 2019 (AREC): The AREC provides detailed compensation-related data on the senior management group (SMG) population and non-SMGs with annual income over \$323,700 (threshold established for 2019). Total compensation is defined as salary and other cash payments made to the employee, one-time reimbursements made to the employee or on behalf of the employee, and any benefits and perquisites. This report is presented to the Regents for review and approval.
- Annual Report of Fiscal Year Expenses of the President for Fiscal Year 2018–19: Business and Finance Bulletin G-45 – Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors requires that all amounts paid or accrued for the current fiscal year, whether paid on behalf of the officer or reimbursed directly to the officer, be reported.
- Annual Report of Taxable Expenses of the President for the 12 months ending October 31, 2018: Business and Finance Bulletin G-45 requires that services or expenses incurred in the operation and staffing of the University residence occupied by the President/Chancellor, that are of personal benefit to the President/Chancellor, be reported, as they are taxable to the officer.
- The President’s Fiscal Year 2018–19 travel and entertainment expense reimbursements.

Objectives:

The audit objectives were to:

- Verify the accuracy, completeness, and timely preparation of the AREC, and confirm that any exceptions noted by UCOP Local Human Resources during the reconciliation of W-2 income data from UC Payroll, Academic Personnel, Timekeeping & Human Resources (UCPath), and AREC report compensation figures for SMG and other relevant employees have been cleared by the designated unit prior to the issuance of the final AREC report;
- Review the Annual Report of Fiscal Year Expenses of the President to ensure that it has been prepared, reviewed, and submitted in accordance with Business and Finance Bulletin G-45 requirements, and that relevant supporting

documentation is on file;

- Confirm compliance with Regents Policy 7106: Policy on the Associate of the President and the Associate of the Chancellor, particularly provisions pertaining to the budget for the Associate of the President;
- Confirm compliance with Regents Policy 7708: University-Provided Housing, particularly with respect to approvals for renovation or remodeling of the President's residence or office or alternative housing arrangements;
- Review the Annual Report of Taxable Expenses of the President to ensure that it has been prepared in accordance with Business and Finance Bulletin G-45;
- Review the President's Fiscal Year 2018–19 travel and entertainment reimbursements to assess compliance with Policy G-28: Travel Regulations.

Audit Procedures:

1. Test for AREC completeness

Since the AREC should include all UCOP Senior Management Group (SMG) employees, as well as non-SMG UCOP employees whose income (including incentive, relocation, and other non-salary income) for the 2019 calendar year exceeded \$323,700, Internal Audit reviewed the 2019 AREC and reconciled its list of employees with UCPath payroll data. This review was performed to ensure that all UCOP SMG employees (identified by payroll code) and all UCOP employees who earned over \$323,700 in 2019 were included in the 2019 AREC with a valid certification.

2. Reconcile income figures in the AREC with reportable W-2 income figures

Internal Audit requested the W-2 reconciliation worksheets (UCOP Local HR report based on UCPath data) from UCOP Local Human Resources and determined whether any discrepancies existed between the AREC compensation figures and W-2 compensation figures.

3. Review the Annual Report of Fiscal Year Expenses of the President

Internal Audit reviewed the Fiscal Year 2018–19 G-45 Report, which categorizes and lists expenses pertaining to the President's residence and business meetings for FY 2018–19, and confirmed that it included appropriate signatures and was prepared in accordance with Business and Finance Bulletin G-45.

This included a review of each category of reportable expenses and the reconciliation of a sample of ten high-dollar amount expenses listed in the G-45

report with figures from the general ledger.

Because the President did not have an Associate, Internal Audit did not determine compliance with Regents Policy 7106: Policy on the Associate of the President and the Associate of the Chancellor.

Internal Audit did determine compliance with Regents Policy 7708: Policy on University-Provided Housing, particularly required approvals for any renovation or remodeling of the President's residence or office (Section III.B) or alternative housing arrangements (Section III.C).

4. Review the Annual Report of Taxable Expenses of the President

Internal Audit reviewed the Annual Report of Taxable Expenses of the President for November 1, 2017 – October 31, 2018 for compliance with the procedures outlined by Business and Finance Bulletin G-45, confirming the presence of appropriate signatures and percentages of staff time and equipment expenses deemed by the President and presidential staff to be for personal use.

5. Review the President's FY 2018–19 travel expenses

Internal Audit reviewed a sample of the President's FY 2018–19 travel expenses and tested for compliance with applicable Policy G-28: Travel Regulations. This included the reconciliation of a sample of the ten highest dollar amount expense reports with general ledger figures and supporting documentation, such as receipts and itineraries.

Conclusion

In general, the AREC, Annual Report of Fiscal Year Expenses of the President, and Annual Report of Taxable Expenses of the President were accurate and complete. Additionally, our review of the President's travel expenses found reported expenses to be in compliance with Policy G-28: Travel Regulations. For this review, Regents Policy 7106: Policy on the Associate of the President and the Associate of the Chancellor was not applicable because the President did not have a designated Associate. For Regents Policy 7708: University-Provided Housing we found that the Building and Administrative Service Center's preliminary plans expenses for Blake House renovation, repair, and seismic improvement were in compliance with the policy and earlier Regental approval of that particular work.

However, our review identified improvement opportunities for the AREC documentation and reconciliation processes performed by UCOP Local Human Resources.

Opportunities for Improvement and Action Plans

1. The AREC was not certified and some AREC and PCT Individual Certifications were incomplete.

The AREC certification page contains provisions for the signatures of the SMG Coordinator and Executive Vice President so that management can certify that to the best of its knowledge the AREC is true and correct. However, the AREC certification page did not contain either of these management signatures and thus had not been certified. Consequently, stakeholders could not be certain whether management has supervised the preparation of the AREC or approved the final version of the report. During our review, at our request UCOP Local Human Resources obtained the management signatures required to certify the AREC, but at that time it had already issued the report without having done so.

A number of AREC and Potentially Compensable Transactions (PCT) Individual Certifications were either missing or incomplete. Two employees' AREC Individual Certifications consisted of only signature pages, which by themselves do not support the compensation that the document is expected to certify. Similarly, another employee agreed with her compensation total via an emailed statement, but did not specify either the numerical components of her compensation or their total. Another employee's AREC Individual Certification was missing entirely.

Numerous PCT Individual Certifications were incomplete in various ways. Two employees only submitted signature pages, which by themselves do not support any particular responses, several each left a question unanswered, and several others provided incomplete signature pages. As above, the employee who responded via an emailed statement for her AREC Individual Certification also did so for her PCT Individual Certification, which does not provide the same level of substantive documentation as the completed questionnaire. PCT Individual Certifications were also missing entirely for two employees, including the same employee whose AREC Individual Certification was missing.

Action Plan

The Executive Director of UCOP Local Human Resources will obtain the required management signatures that were absent from the CY 2019 AREC certification page.

Target Date: Completed during review.

To ensure the accountability of SMGs and other highly-compensated employees, completeness of AREC documentation, and consistency and continuity in the AREC preparation process, the Executive Director of UCOP Local Human Resources will develop documented procedures to verify key requirements, including the following:

- *Management signatures are present on the AREC certification page*

- *Each AREC Individual Certification includes all pages together as one complete document, accurate compensation information, and a fully completed signature page*
- *Each PCT Individual Certification includes all pages together as one complete document, answers to all questions, and a fully completed signature page*
- *Electronic files containing AREC and PCT Individual Certifications have a consistent naming convention to facilitate document identification.*

Target Date: June 30, 2022

2. The compensation totals reported in the AREC for three employees did not match the supporting documentation.

The compensation totals reported in the AREC for three employees did not match the supporting documentation. Specifically, these AREC totals did not match those in AREC Individual Certifications in two cases and the W-2 reconciliation worksheet in another. Although for the latter the difference was only \$40, for the other two employees the differences between the AREC and their AREC Individual Certifications were significant, ranging from tens to hundreds of thousands of dollars, and thus it was unclear whether management accurately reported the total compensation of those employees in the AREC.

Action Plan

The Executive Director of UCOP Local Human Resources will investigate and reconcile the discrepancies found in the compensation totals reported in the AREC for three employees, two of which do not match the AREC Individual Certifications and one of which does not match the W-2 reconciliation worksheet, and issue a corrected AREC if necessary.

To ensure the accuracy of the AREC and consistency and continuity in the AREC preparation process, the Executive Director of UCOP Local Human Resources will develop documented procedures to reconcile compensation amounts in the certified AREC with those in the AREC Individual Certifications and W-2 reconciliation worksheets before releasing the AREC.

Target Date: June 30, 2022