

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

**Offices of the Chancellor and Provost
Chancellor's Expenses - G-45
Audit and Management Advisory Services Project #17-58**

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MANAGEMENT SUMMARY

Background

The Business and Finance Bulletin (BFB) G-45, "*Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors*", is intended to promote compliance with Internal Revenue Service (IRS) regulations. Because Chancellors play a unique role in representing the University, BFB G-45 establishes special accounting and reporting requirements for each campus. Specifically, campuses must prepare two annual reports that summarize the Chancellors' expenses in categories that are outlined in BFB G-45. These reports are known as the Annual Report of Fiscal Year Expenses of the Chancellor (Fiscal Year Report) and the Annual Report of Taxable Expenses of the Chancellor (Taxable Year Report). Per BFB G-45, the Fiscal Year Report covers the period from July 1 through June 30, and the Taxable Year Report covers the period from November 1 through October 31.

Due to the transition in the Chancellor's Office, this year the following reports were filed:

- Fiscal Year Report for Chancellor Emerita Katehi.
- Taxable Year Report for Chancellor Emerita Katehi.
- Fiscal Year Report for Interim Chancellor Hexter. The expenses for the Interim Chancellor were included beginning on April 27, 2016, the date he became Acting Chancellor.

A Taxable Year Report was not required to be filed for Interim Chancellor Hexter because he did not occupy the Chancellor's residence.

Purpose and Scope

As part of the fiscal year 2016-17 audit plan, Audit and Management Advisory Services (AMAS) conducted a review of the Fiscal Year Reports and the Taxable Year Report noted above. The Office of the Chancellor and Provost (OCP) is responsible for compiling the reports.

The purpose of our review was to determine if these reports were accurate, complete, and prepared in compliance with the requirements of BFB G-45. Additionally, we reviewed a sample of travel and entertainment (T&E) expenses for the Chancellor Emerita, the Associate of the Chancellor Emerita (Associate) and the Interim Chancellor, to assess compliance with applicable T&E policies. (The Interim Chancellor did not have an Associate.)

To complete our review of the required BFB G-45 reports and T&E expenses, AMAS examined BFB G-45 and OCP Implementation Guidelines. We analyzed financial records, travel claims and other relevant documents. We also tested a small sample of T&E expenses. Finally, we interviewed OCP staff to determine the methodology they used when preparing the reports.

Conclusion

Based on the work performed, AMAS found that the reports were complete. Total expenses recorded in the University's financial ledgers matched the total amounts stated in the G-45 reports, with one nominal difference in the report of support staff benefits in the Chancellor Emerita's Taxable Year Report. Follow-up analysis demonstrated that the difference represented only 0.14% of the total expenses reported in the Taxable Year Report. The discrepancy had no taxable impact to the Chancellor Emerita, as none of the support staff effort during the report period was for the personal benefit of the Chancellor Emerita. This discrepancy was reviewed with OCP management.

AMAS also found that documentation of the business purpose for upgraded airfare could be improved. Other minor issues were discussed with OCP management.

Additional information is contained in the body of this report.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

A. Insufficient Supporting Documentation

Documentation of the business need for upgraded airfare was not always sufficient to demonstrate compliance with policy.

During our review, we examined a sample of three travel expense reports each for the Chancellor Emerita, the Associate and the Interim Chancellor. We did not find any inappropriate reimbursements, although we did find a number of instances where the documentation for business or first class airfares included with the travel claim was insufficient to support their appropriateness and compliance with policy.

The responsible OCP staff members were able to provide the necessary documentation upon request.

Of the travel claims we examined, all claims of the Chancellor Emerita, all claims of the Associate and one of the claims for the Interim Chancellor included the purchase of business or first class airfare. University of California policy G-28, *Travel Regulations*, allows for the purchase of business or first class airfare when coach class would be more expensive or when the traveler's itinerary involves an overnight flight without the opportunity for normal rest before the commencement of working hours. The policy requires that documentation of the need for the upgrade be included with the travel expense claim.

The claims included a statement explaining the upgrades were allowable, as these were overnight flights and did not allow time for rest before the start of working hours to conduct University business. In all cases, receipts showing the overnight flights were included. However, of the seven claims for upgraded airfare, only two had evidence showing the start of working hours to conduct University business at the destination. Attaching an agenda or other substantiation of the start of working hours to conduct University business completes the documentation and demonstrates the upgrade was necessary and allowable under policy.

Recommendation

- a. Accounting and Financial Services (A&FS) should implement procedures to ensure that all travel claims containing the purchase of upgraded airfare include documentation detailing both the overnight flight and the time of the commencement of working hours at the destination.

Management Corrective Actions

1. By August 15, 2017, A&FS will develop and implement a form for use by travelers to document compliance with University travel policy when upgraded airfare is purchased.
2. By August 15, 2017, A&FS will amend local travel policy to reflect the requirement for submission of the new form when upgraded airfare is purchased, and submit a corresponding policy update.
