

UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT
ETHICS, COMPLIANCE AND AUDIT SERVICES
INTERNAL AUDIT

UCOP Executive Compensation

Audit No. P24A002

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Executive Summary

Introduction

As part of the University of California Office of the President (UCOP) fiscal year 2023–24 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 items:

- The Annual Report on Executive Compensation for Calendar Year 2022 (AREC): The AREC provides detailed compensation-related data on senior management group (SMG) members and those employees who are not SMG members but whose total cash compensation exceeds \$369,200 (the threshold established for 2022). 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.
- The Annual Report of Fiscal Year Expenses of the President for Fiscal Year 2021–22: Business and Finance Bulletin G-45 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.¹
- The Annual Report of Taxable Expenses of the President for the 12 months ending October 31, 2022: Business and Finance Bulletin G-45 requires the reporting of 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, as they are a taxable benefit to the President/Chancellor.
- The President’s fiscal year 2021–22 travel and entertainment expense reimbursements.

Objective and Scope

The objectives of the audit were to:

- Verify the accuracy, completeness, and timely preparation of the AREC, and confirm that prior to the issuance of the final AREC any differences identified by UCOP Local Human Resources between W-2 income data from UC Payroll, Academic Personnel, Timekeeping, and Human Resources (UCPath) and the AREC have been approved by the designated unit;

¹ Business and Finance Bulletin G-45 – “Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors”

- 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, with a particular focus on those provisions pertaining to the budget for the Associate of the President;²
- 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 2021–22 travel and entertainment reimbursements to assess compliance with Policy G-28: Travel Regulations.

Note: Compliance with Regents Policy 7708: University-Provided Housing, was recently reviewed as part of Project No. P24A016: President’s Residence Capital Improvement Expenditures Audit, which was issued December 4, 2023. Accordingly, compliance with that policy was not a part of this audit’s objectives. Please see the report for Project No. P24A016 for observations related to compliance with Regents Policy 7708.

Audit Procedures

1. Test for AREC completeness

Internal Audit reconciled the 2022 UCOP AREC’s 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 more than \$369,200 (including incentive, relocation, and other non-salary income) in calendar year 2022 were included in both the systemwide 2022 AREC the UCOP-certified location-specific AREC.

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

Internal Audit obtained the W-2 reconciliation worksheets (a UCOP Local HR report based on UCPath data) from UCOP Local HR 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 2021–22 G-45 Report, which categorizes and lists expenses pertaining to the President’s residence and business meetings for

² Regents Policy 7106: Policy on the Associate of the President and the Associate of the Chancellor

fiscal year 2021–22 and confirmed that it included appropriate signatures and was prepared in accordance with Business and Finance Bulletin G-45.

This included reviewing each category of reportable expenses and reconciling a sample of the ten highest-dollar expenses listed in the G-45 report with figures from the general ledger.

Internal Audit reviewed the fiscal year 2021–22 Associate of the President’s expenditures for compliance with Regents Policy 7106: Policy on the Associate of the President and the Associate of the Chancellor.

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, 2021 – October 31, 2022 for compliance with the procedures outlined by Business and Finance Bulletin G-45, confirming the presence of appropriate signatures and verifying the percentages of staff time and equipment expenses deemed by the President and presidential staff to be for personal use.

5. Review the President’s fiscal year 2021–22 travel expenses

Internal Audit reviewed a sample of the President’s fiscal year 2021–22 travel expenses and tested them for compliance with Policy G-28: Travel Regulations. This included reconciling a sample of the ten highest dollar expense reports with general ledger figures and supporting documentation, such as receipts and itineraries.

Overall Conclusion

The AREC was generally accurate and complete, but it was not publicly posted in a timely manner, several certifications were missing or incomplete, and a potentially compensable transaction was not assessed for taxability.

Although the Annual Report of Taxable Expenses of the President was accurate and complete, the Annual Report of Fiscal Year Expenses of the President inaccurately presented certain categories of expenses as well as the annual expenses for the Associate of the President, and the Business Resource Center did not obtain the President’s signature on one of the required reports of his expenses. Our review of the President’s travel expenses found that they were generally in compliance with University travel regulations except that the business purpose was not documented for a travel expense that was reimbursed for an outside professional activity. Related to this issue, we noted that University travel regulations do not specifically address whether outside professional activities could qualify as a University business purpose complicating the review of this reimbursement. Finally, the Associate of the President’s budget was not presented as a discrete item in the UCOP budget as required by Regents policy.

Accordingly, our review identified improvement opportunities in each of these areas. Those are described in the following section of the report.

Opportunities for Improvement and Action Plans

1. The Annual Report on Executive Compensation (AREC) for Calendar Year 2022 was not publicly posted.

The State Budget Act for fiscal year 2006-07 required the UC to report to the Legislature annually through calendar year 2010 on the compensation of certain positions. In the interests of increased transparency and accountability, after fulfilling that requirement UC has continued to report all forms of compensation for university officers and all employees whose compensation exceeds an established threshold. Accordingly, the University compiles its Annual Report on Executive Compensation (AREC), submits it to the Regents, and posts it on the UC Office of the President Institutional Research and Academic Planning (IRAP) compensation reporting webpage.

Although UCOP compiled the Calendar Year 2022 UC AREC and shared it with members of the Regents Governance Committee on August 3, 2023, Internal Audit noted during its audit fieldwork that the AREC had not been posted to the IRAP webpage. Executive Compensation explained that the report had not been posted online because its format did not align with accessibility requirements. After addressing these issues, IRAP posted the 2022 AREC in July 2024.

Action Plans:

- a. *Executive Compensation should resolve the accessibility issues in the Calendar Year 2022 AREC, then submit and verify the report's posting to its compensation reporting webpage.*
- b. *Executive Compensation should develop a written procedure to ensure that the AREC is posted to the IRAP webpage in a timely manner.*

Target Dates:

- a. *Executive Compensation completed this action during Internal Audit's review and Internal Audit confirmed the report was posted*
- b. *August 3, 2026*

2. Several AREC and PCT certifications were missing or incomplete.

Executive Compensation requires that each employee whose compensation is reported in the AREC complete two documents. First, they must sign an individual AREC certification validating the compensation data in the AREC. Second, they must complete and sign a Potentially Compensable Transactions (PCT) certification that includes a questionnaire

collecting information on payments received or made on behalf of an employee or employee's immediate family that may be considered compensation.

However, UCOP's Local Human Resources (Local HR) was initially unable to provide AREC and PCT certifications for three current University employees because the employees had not returned the completed forms. Two of these individuals were current UCOP employees and the third (Employee A) had separated from UCOP to accept a position at another UC location. At Internal Audit's request, Local HR obtained completed forms from the two current UCOP employees. However, Employee A (who separated from UCOP to accept a position at another UC location) did not respond to Local HR's request to complete their forms.

In addition, one employee (Employee B) signed their PCT certification but did not answer any of its questions.

During this process, Internal Audit learned that Local HR did not have formal, documented follow-up and escalation procedures for the scenarios described above.

Action Plans:

- a. *The Executive Director of UCOP Local Human Resources will develop follow-up and escalation procedures for employees who do not respond to its requests to complete AREC and PCT certifications and possess the following characteristics:*
 - i. *Employees who are currently employed by UCOP.*
 - ii. *Employees who are now employed at another UC location regardless of separation date or whether their new position is reportable for AREC purposes.*
- b. *The Director of Executive Compensation will revise the annual Guidelines for AREC List of Reportable Employees (categories three and five) to reflect corrective action a.ii., described above.*
- c. *The Executive Director of UCOP Local Human Resources will request that Employees A and B described above complete their certifications in accordance with the new escalation procedures.*

Target Date: August 3, 2026

3. A potentially taxable benefit for one SMG employee was not assessed for inclusion in their Form W-2 and the AREC.

The AREC provides information on certain benefits and perquisites. Although most of this information is known to UCOP Human Resources from payroll records, personnel files, and other sources and aids, items may be omitted in error. To validate the amounts to be reported, individuals that meet the AREC reporting requirement must complete a Potentially

Compensable Transactions (PCT) certification, which is designed to assist in identifying transactions that could result in additional compensation, because non-cash benefits and perquisites can be considered taxable by the IRS and if so, must be included as imputed income on the employee's Form W-2.

One SMG employee who completed the PCT certification for calendar year 2022 answered a question in the affirmative, noting that a campus provides security services for her personal residence.

According to Executive Compensation, UCOP Human Resources is responsible for identifying affirmative responses to PCT certifications and obtaining taxability determinations in such cases. However, UCOP Human Resources was not aware of this responsibility and so had neither identified nor assessed this affirmative response and its explanation. In response to our inquiry, prior to issuance of this report UCOP Human Resources obtained from Financial Management a past opinion provided by external tax counsel that security services may be nontaxable under certain circumstances.

Action Plans:

- a. *UCOP Human Resources should update its procedures to ensure that affirmative responses to PCT certifications and their explanations are systematically identified, assessed, and documented.*
- b. *UCOP Human Resources should consult with appropriate parties to determine whether this item is taxable and if so ensure that any required adjustments to the employee's Form W-2 and the 2022 AREC are processed.*

Target Dates:

- a. *Completed/verified prior to report issuance.*
- b. *Completed during the course of Internal Audit's review.*

4. The BRC did not obtain the President's signature on one of the required reports of his expenses.

The University provides the President with housing to enable him to perform the administrative, ceremonial, and social functions required of the position. Although the value of this housing is not taxable because the University requires that the President occupy it, all staff time devoted to personal services is taxable, as are certain utilities such as telephone and Internet if the President's personal use exceeds 15% of the annual amount spent for those services. Accordingly, policy requires that the President certify the proportion of these services that were for his personal use.

To certify the President's use of these services, University policy states that "The Annual Report of Taxable Expenses, the Officer's Report of Personal Use of University owned

Equipment, and the Report of Staff Time Devoted to Personal Services Performed for the Officer³... must be signed by the President/Chancellor.”⁴

However, the BRC did not obtain the President’s signature on the report pertaining to personal use of utilities (Officer’s Report of Personal Use of University owned Equipment). According to the BRC, it believed that his signature on the staff time report acknowledged that he had reviewed all of the several reports that summarize his yearly expenses and thus fulfilled all of the signature requirements. However, because each report is a distinct document with its own signature line for the officer, the President’s signature on any one report does not fulfill the signature requirements for the other reports.

Action Plan:

To ensure that in the future the President clearly certifies all of the required annual reports of his expenses, the BRC will request the President’s signature on each of the three required reports contained in the appendices of the Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors.

Target Date: The BRC stated that it completed this action during the course of the review; Internal Audit will validate the action as part of its standard follow-up process.

5. The Annual Report of Fiscal Year Expenses of the President did not include all of his travel and entertainment expenses.

Although University policy allows expenses incurred for official University business to be paid from a variety of fund sources available to the President, it also requires that the location prepare an Annual Report of Fiscal Year Expenses of the President at the conclusion of each fiscal year that identifies the total expenses incurred by the officer.

Included in this report are the President’s travel expenses, which per policy “should include only travel expenses funded by the President’s...budget,” as well as his entertainment expenses in support of underlying University business purposes. The BRC explained that each year the President’s Executive Office (PEO) provides it with the general ledger chart strings (i.e., accounts and funds) that BRC uses to compile the report.

For the President’s fiscal year 2021-22 travel expenses, the PEO provided the BRC with a list of two funds; however, our review of the President’s travel and entertainment identified 12 additional travel expense reports and a campus lodging recharge totaling \$13,016 that were charged to a third fund and thus not reported in the fiscal year 2021–22 report. Similarly, this report omitted an entertainment expense of \$704. According to the PEO, this oversight was due to staff turnover. Specifically, the staff member who had previously tracked the funds used for the President’s expenses left her position and her replacement had to independently

³ “Officer” in this context refers to the President/Chancellor.

⁴ Policy BFB-G-45: Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors, section II.M. Account for Expenses of the Associate of the President/Chancellor.

determine the specific information the PEO was required to provide to the BRC for the fiscal year report.

Underreported travel expenses in the report also took the form of direct travel charges. University policy requires that a “travel expense claim...shall be used to account for all travel advances and expenses incurred in connection with official University travel.”⁵ However, some of the travel expense reports we examined referenced intercampus recharges but did not itemize such charges. As a result, those charges were not included in the travel expenses total in the annual report.

Action Plans:

The PEO should:

- a. *Review the general ledger accounts and funds it provided to the BRC for the 2021–2022 Annual Report of Fiscal Year Expenses of the President.*
- b. *If adjustments are required to the Annual Report as a result of the step above, then the PEO should coordinate with the BRC to make the appropriate adjustments and redistribute the report in accordance with the BRC’s documented procedures regarding report corrections.*
- c. *Update its procedures to:*
 - i) *Maintain a list of accounts and funds it submits to the BRC for the Annual Report of Fiscal Year Expenses of the President and annually review the accuracy of that list.*
 - ii) *Include all travel expenses, such as intercampus recharges, in travel expense reports.*

Target Date: August 3, 2026

6. The reported annual expenses for the Associate of the President were inaccurate.

University policy requires that the Annual Report of Fiscal Year Expenses of the President include the expenses of the Associate of the President and that the Office of the President use a specific general ledger account to facilitate this reporting.⁶ However, certain expenses of the Associate listed in the fiscal year 2021-22 report totaling \$371 were not found in that specific general ledger account. In addition, the BRC’s review of the general ledger found that certain other expenses totaling \$492 were not included in the report. Thus, the errors we were able to identify partially offset each other, and the resulting total only differed by \$120 from the amount reported. According to the PEO, these discrepancies are due to a former staff member who did not always use a specific general ledger account for the Associate’s

⁵ Policy G-28 Travel Regulations, section V. Procedures, I. Reporting Travel Expenses.

⁶ Business and Finance Bulletin G-45 – “Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors”

expenses as required by policy. Because a specific general ledger account was not used consistently, we were unable to fully assess the completeness and accuracy of the Associate’s expenses.

Action Plan:

The PEO will establish and implement documented procedures to use a specific general ledger account for the Associate of the President’s expenses so that those expenses are accurately recorded in the general ledger and reported in the Annual Report of Fiscal Year Expenses of the President.

Target Date: August 3, 2026

7. The Associate of the President’s budget was not presented as a discrete item in the UCOP budget.

Regents’ Policy states, “The budget for the Associate to the President must be included as a discrete item in the budget of the President’s immediate office when the annual budget for the Office of the President is submitted to the Regents for approval.”⁷

In response to Internal Audit’s request for documentation of this requirement for fiscal year 2021–22, UCOP Budget, Financial Planning, and Analysis (BFP&A) explained that the budget for the Associate of the President was labeled as “overhead costs” in an internal working spreadsheet and was not presented as a distinct item in the budget of the President’s immediate office that was submitted to the Regents for approval.

Action Plans:

UCOP Budget, Financial Planning, and Analysis will:

- a. Include the budget for the Associate of the President as a discrete item in the form of a footnote in the appropriate appendix of the Budget for UC Office of the President.*
- b. Revise its Budget Manual to require inclusion of the above footnote in the annual Budget for UC Office of the President.*

Target Dates:

- a. Completed for fiscal year 2024-25 during the course of this review.*
- b. August 3, 2026*

8. University travel regulations do not address whether outside professional activities qualify as a University business purpose.

⁷ Regents Policy 7106: Policy on the Associate of the President and the Associate of the Chancellor

University travel policy states that business trips must document the purpose of travel, the trip's origin and destination, the dates and times of travel, and that the traveler must bear the additional cost of any indirect travel not related to University business. We noted one instance where the President was reimbursed for travel from another U.S. state to a UC campus, rather than from his residence or headquarters. Although the expense report did not describe the reason for the travel originating in another state, the President's Executive Office (PEO) explained that he had been in the other state to participate in an Outside Professional Activity (OPA), and that the portion of the travel to that state was covered by the sponsoring organization. Although the cost of travel from the other state to the UC campus might have been more than the cost of travel from UC headquarters would have been, because current travel guidance does not clearly address travel involving OPAs, it is not clear how such cases should be handled.

During our review, we also noted that the President's expense reports were not routed to the designated reviewer as required and worked with the Business Resource Center to correct the routing issue for future expense reports. However, it is not clear why the reports were not correctly routed during the period reviewed. To avoid such situations in the future, the BRC should create processes to detect travel reports that are not approved.

Action Plans:

The Vice-President of Systemwide Human Resources will:

- a. *Coordinate a revision of the OPA policy to clearly define whether participation in an outside professional activity can simultaneously represent a University business purpose and the scenarios or circumstances under which travel expenses incurred because of such an outside professional activity may be reimbursed.*

The BRC will:

- b. *Revise its documented travel expense report review procedures to include a determination of whether travel began from a location other than the traveler's headquarters or residence, and if so, whether personal travel was involved and an airfare comparison is thus required.*
- c. *Update expense approval routing in the expense management system to route expense reports from the PEO for approval as specified by the Chief Operating Officer's June 2025 travel approval delegation matrix.*
- d. *Retroactively submit for approval any expense reports from the PEO that were not previously approved.*
- e. *Revise its procedures to include a periodic or, at a minimum, an annual review of all reimbursed SMG expense claims to determine if any were not routed for appropriate secondary review and approval.*

Target Dates:

- a. August 3, 2026*
- b. Completed during review*
- c. The BRC stated that it completed this action prior to issuance of this report: Internal Audit will validate during its standard follow-up process.*
- d. August 3, 2026*
- e. August 3, 2026*