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November 9, 2018

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Senior Vice President and Chief Compliance and Audit Officer  
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  
Interim Director

cc: Associate Chancellor and Chief of Staff Khira Griscavage  
Assistant Vice Chancellor and Controller Delphine Regalia  
Deputy Associate Chancellor and Chief Operations Officer Wanda Ellison Crockett



# AUDIT AND ADVISORY SERVICES

Chancellor's Expenses (BFB-G-45)

Audit

Project No. 18-718

November 9, 2018

Prepared by:

Reviewed and Approved by:

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Robert Asato  
Auditor-in-Charge

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Jaime Jue  
Interim Director

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

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## OVERVIEW

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### 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, 2016 through June 30, 2017 and the Annual Report of Taxable Expenses for the President/Chancellor for the period of November 1, 2016 through October 31, 2017, 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 on the campus general ledger and supporting documentation.

Given the overlap of chancellors in office during the reporting period for the Annual Report of Taxable Expenses for the President/Chancellor, the expenses for former Chancellor Dirks were reviewed for the months of November 2016 through June 2017 and the expenses for Chancellor Christ were reviewed for the months of July 2017 through October 2017.

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 2017 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 appear to be generally operating effectively for the 2017 reporting period. However, we noted similar observations from last year's review for improving timely and complete documentation of entertainment events and associated expenses occurring at the Chancellor's residence, as well as timely submission of the Chancellor's travel and entertainment spreadsheets to the campus Controller's Office.

We note that management's response to last year's audit report included planned process improvement for both event packets/logs and travel and entertainment spreadsheets that would take place concurrently with the arrival of the new Chancellor in July 2017. As such, to the extent those improvements were implemented later in fall 2017, they would have been fully implemented after our audit period.

## **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, 2016 through June 30, 2017 and the Annual Report of Taxable Expenses for the President/Chancellor for the period of November 1, 2016 through October 31, 2017, 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 on 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. Given the overlap of Chancellors in office during the reporting period for the Annual Report of Taxable Expenses for the President/Chancellor, the expenses for former Chancellor Dirks were reviewed for the months of November 2016 through June 2017 and the expenses for Chancellor Christ were reviewed for the months of July 2017 through October 2017.

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

- obtaining copies of the 2017 reports and report attachments;
- obtaining an understanding of management's process to collect and record amounts reported on the 2017 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 2017 reports and inquiring with management on any differences including the root cause;
- assessing the overall accuracy and completeness of the amounts reported on the 2017 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 2017 reports.

Our fieldwork was conducted between September and December 2017.

## **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 2017 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 2017 reporting period. However, we noted similar observations from last year's review for improving timely and complete documentation of entertainment events and associated expenses occurring at the Chancellor's residence, as well as timely submission of the Chancellor's travel and entertainment spreadsheets to the campus Controller's Office.

We note that management's response to last year's audit report included planned process improvement for both event packets/logs and travel and entertainment spreadsheets that would take place concurrently with the arrival of the new Chancellor in July 2017. As such, to the extent those improvements were implemented later in fall 2017, they would have been fully implemented after our audit period.

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# SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

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## **Timely Preparation and Approval of Travel and Entertainment Expenses**

### **Observation**

We observed that the University House event log for fiscal year 2017 prepared by the staff of University Development and Alumni Relations (UDAR) and the Chancellor's Immediate Office (CIO) for entertainment expenses occurring at the Chancellor's residence was incomplete insofar as items such as the total cost of the event and total cost per person, name of the caterer, chartstring, and name of the person who reconciled the event were not consistently recorded.

Additionally, some packets of supporting event expense documentation were not completed by UDAR and submitted to the CIO by the time of our review. The CIO followed up with UDAR and obtained the missing event packets but with a considerable delay. Similar observations were also noted in last year's audit report. Delays in the preparation of event packets and log impact the CIO's ability to reconcile transactions on a timely basis and assure completeness in the preparation and review of the Annual Report of Fiscal Year Expenses.

Also, spreadsheets prepared by the CIO summarizing the Chancellor's travel and entertainment expenses and subsequently forwarded to the Controller's Office for review and approval were submitted for each quarter of the fiscal year on an intermittent basis rather than monthly as specified in BUS-79, Expenditures for Business Meetings, Entertainment, and Other Occasions. However, all were approved by the campus controller as required by the policy. This is also an observation that was noted in last year's audit report.

We note that management's response to last year's audit report included planned process improvement to better ensure completeness and timeliness for both event packets/logs and travel and entertainment spreadsheets that would take place concurrently with the arrival of the new Chancellor in July 2017. As such, to the extent those improvements were implemented later in fall 2017, they would have fully implemented after our audit period.

### **Management Response and Action Plan**

Management concurs in general with the observations. University Development and Alumni Relations (UDAR) assumed the command of Chancellor events at University House when staffing was downsized as a part of the division expense reduction strategy that helped to meet budgetary targets. The transition of the functional work in managing all of the project and event planning to UDAR was in 2017. However, as noted during this review period there have been operational challenges, so it has taken time to acclimate and advance the understanding of the accounting requirements that govern G45 reporting. Events packets, with accompanying receipts, were prepared by personnel consistent with UC policy; however, the electronic log was not consistently updated to capture the fully loaded expenses for each event. Hence, Chancellor Office finance personnel had to work diligently with event management staff to improve the process by providing

compliance guidance. These efforts included but are not limited to scheduling meetings to discuss standards and operating procedures, following up on incomplete packets, and to streamline practices. These actions have vastly improved the quality and timeliness of the record keeping of these activities. Also, by implementing process improvements to reduce the risk of expenses and receipts for each event not being recorded accurately on the register and in the event packet has strengthened controls. The Chancellor's Immediate Office will continue to communicate with UDAR's staff more frequently regarding any missing and or incomplete data, so the two units are aligned on reporting.

Management reorganized staffing in the Spring 2018 and recruited an experienced, knowledgeable accountant, to address the business needs of managing the Chancellor's travel and entertainment (T&E) per policy. The new structure has improved and strengthened the essential controls, financial accounting and reporting requirements of the Chancellor's travel and entertainment activities. Consequently, there have been a rapid improvement in the amount of time it takes to review, modify, and submit the consolidated expense report for approval. As noted in previous internal reviews, every effort is made to perform the reconciliation within 30 days following the close of the ledger; however, the timing of recharges or billing activities, which are beyond the unit's control, is a noteworthy consideration. The goal and practice remain to ensure that travel and entertainment expenses are reconciled monthly, and the report is being provided to the Controller's Office in the certification processes on a timely basis. The vetting by the Controller's Office can be extensive pending the complexity of the transactions which adds time to the certification process. However, other controls implemented in FY2018 included improved monitoring and reconciliation of expenses, including revising the T&E log categories for more robust and complete reporting. Moreover, each expense charged to the Chancellor's University House events budget is reconciled consistently and timely then past practices. The travel and entertainment report was modified to capture the event date for each payment to ease the amount of time that was spent in prior years reconciling the figures on the log. Finance staff will continue to collaborate with the Controller's Office and to assess workflow regarding the certification process to address timeliness and completeness of the records.