

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



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John A Lohse
INTERIM SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

August 8, 2017

EXECUTIVE DIRECTOR PLUZDRAK

RE: Final Report Project No. P17A004: UCOP Executive Compensation

Attached is a copy of the final report for: Audit Services Project No. P17A004 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).



Matt Hicks
Systemwide Deputy Audit Officer

Attachment

cc: Interim Senior Vice President Lohse
Vice President Duckett
Interim Director Niess
Systemwide Audit Manager Cataldo

UNIVERSITY OF CALIFORNIA
SENIOR VICE PRESIDENT
ETHICS, COMPLIANCE, AND AUDIT SERVICES

UCOP EXECUTIVE COMPENSATION
Audit Project No. P17A004
June 2017

Audit Conducted by:
Benjamin Wong, Auditor

Executive Summary

Introduction and Background

We have completed a review of executive compensation at the University of California, Office of the President (UCOP). The scope of our work included a review of the following four compensation items:

- **Annual Report on Executive Compensation for Calendar Year 2016 (AREC):** The AREC provides detailed compensation related data on the senior management group (SMG) population and non-SMGs with annual income of over \$304,000 (threshold established for 2016). 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 2015-16:** 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, 2016:** 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, which are of personal benefit to the President/Chancellor, be reported as they are taxable to the officer. The reporting period for this annual report is November 1 of the prior year through October 31 of the current year (November 1, 2015 – October 31, 2016).
- The President's 2016 travel and entertainment expense reimbursements.

Objectives and Scope

The audit objectives were to:

- Evaluate processes in place to determine if they are sufficient to ensure the accuracy, completeness, and timely preparation of the AREC, the Annual Report of Fiscal Year Expenses of the President, the Annual Report of Taxable Year Expenses of the President, and the UCLA Payroll Services W-2 reconciliation workbook, which contains a reconciliation between the AREC and W-2 reportable amounts.
- Evaluate the President's 2016 travel and entertainment reimbursements to ensure compliance with UC policies.

The scope of work included the following:

1. Reviewed the 2016 AREC and tested the report completeness by comparing report information to data independently extracted from the UCLA campus data warehouse for payroll data. We verified certifications received from the reportable individuals agreed with the AREC report data.
2. Reviewed the Annual Report of Fiscal Year Expenses of the President, verified the reported amount to general ledger expenditures and performed a walkthrough to obtain an understanding of the preparation process.
3. Reviewed the Annual Report of Taxable Year Expenses of the President and verified the required forms were completed and signed by the appropriate individuals.
4. Reviewed a sample of the President's 2016 travel and entertainment reimbursements and tested for compliance with applicable UC travel and entertainment policies.
5. Reviewed the UCLA Payroll Services W-2 Reconciliation Workbook and verified that any variances noted between AREC data and the W-2 Reconciliation Workbook were researched and corrected.

Conclusion

In general, the processes in place for the preparation of the Annual Report on Executive Compensation, the Annual Report of Fiscal Year Expenses of the President, and the Annual Report of Taxable Year Expenses of the President were sufficient to ensure the reports are accurate and complete.

We noted that the sample of the President's 2016 travel and entertainment reimbursements that were selected for review were in compliance with UC policies.

UCOP's payroll system migrated to UCPATH in November 2015. UCOP Local HR calculated reportable AREC reportable employee compensation amounts based on data extracted from the UCLA data warehouse using a Cognos report. When UCOP Local HR reconciled the data between the AREC compensation amounts and the UCPATH Center W-2s amounts, a number of discrepancies were identified. These errors were largely due to retroactive pay that was not correctly reflected on the Cognos report. As a result, UCOP Local HR needed to revise many of the individual AREC reports and obtained re-certifications from the affected employees.

Opportunities for Improvement and Action Plans

1. UCOP AREC preparation procedures should include developing a report to identify reportable AREC employees and amounts correctly.

UCOP Local HR calculated reportable AREC employee compensation amounts based on data extracted from the UCLA data warehouse using a Cognos report. When UCOP Local HR reconciled the data between the AREC compensation amounts and the UCPath Center W-2s amounts, a number of discrepancies were identified. These errors were largely due to retroactive pay that was not reflected correctly on the Cognos report.

Due to the above identified discrepancies, UCOP Local HR needed to revise many of the individual AREC reports and obtain re-certifications from the affected employees. At the end of our fieldwork, there was one individual AREC report that has not been re-certified by the employee.

Given that the Annual Report on Executive Compensation is a time sensitive and published report, it is critical that the report be prepared timely and accurately. The Cognos report, or similar, should be developed and tested to ensure that all required compensation elements are present to ensure accurate reporting.

Action Plan:

UCOP Local HR will develop a data extract report that will correctly identify reportable AREC employees and compensation amounts.

Target Date: December 31, 2017