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## Internal Audit Report

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# ANNUAL REPORT ON EXECUTIVE COMPENSATION (AREC) Systemwide Audit

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**Approved**  
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**I. EXECUTIVE SUMMARY**

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Internal Audit & Advisory Services (IAS) has reviewed UCSC's *Annual Report on Executive Compensation* for 2012. This biennial review was requested by the UC President to be conducted before finalization of the report by each UC campus internal audit organization.

Overall, the AREC report was found to be complete, accurate, and in compliance with policy. Processes were in place to ensure the accurate recording of the AREC members' compensation and proper certification of accompanying documents.

A summary of the detailed results is described in Section III of this report. There are no Management Corrective Actions identified or required as a result of our review.

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## II. INTRODUCTION

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### Purpose

The purpose of this audit was to review and evaluate the completeness and accuracy of the *Annual Report on Executive Compensation (AREC)* for the calendar year 2012.

### Background

In accordance with the reforms over executive compensation initiated in 2006 by the UC Office of the President (UCOP), each campus is required to report annually on compensation paid to executives. The AREC is a report based on data in the Senior Leadership Information System (SLIS). The SLIS database is hosted by UCOP and is available to each campus via web interface. The format and content of the AREC report is set by UCOP. Each year UCOP issues a letter prescribing the criteria for selection of the executives appearing in the AREC report. In 2012, the UC Santa Cruz AREC population was its entire Senior Management Group (SMG).

AT UCSC, for the last two years, the responsibility of preparing the AREC report has been transferred from the Academic Personnel Office to the Office of the Executive Vice-Chancellor and Campus Provost (EVC). In the EVC Office, the SMG coordinator is also responsible for the senior leadership recruitment process, and therefore is aware of all personnel actions for the SMG members.

### Scope

The scope of the audit included:

- A review of the draft AREC report itself before finalization for the 2012 calendar year (January 1<sup>st</sup> 2012 to December 31<sup>st</sup> 2012).
- A review of two additional forms: the *Compensation Summary* and the *Potentially Compensable Transactions Individual Certification (PCT)* to ensure that both forms have been filled out and certified by each of the AREC members. These two forms are sent to UCOP attached to the AREC report signed by the Chancellor.

We conducted interviews with the EVC Office, the General Accounting Office and the Payroll Office. We reviewed executive employees' packets and the SMG coordinator's packet sent by UCOP for directives regarding the certification process of the 2012 AREC report submission. We cross-verified the accuracy of the AREC population and the compensation shown for each of its members. We also reviewed all *Compensation Summaries* and PCTs for certification and congruence with the data shown on the AREC report.

**III. SUMMARY OF WORK PERFORMED AND RESULTS**

Interview with SMG Coordinator – Review of Responsibilities	
Work Performed	Results
Reviewed the SMG coordinator responsibilities for possible changes or new challenges.	<p>The SMG coordinator responsibility had been moved to the EVC Office and the AREC report was generated out of this office for the calendar years 2011 and 2012.</p> <p>The SMG coordinator also manages the accountability of the senior leadership recruitment process. This places the SMG coordinator in a privileged place to record any senior leadership personnel actions.</p> <p>The SMG coordinator was knowledgeable of the AREC certification process, interfaced with the necessary campus offices and used support resources made available by UCOP.</p> <p>Over the past several years, there has been a shift towards maintaining more of the AREC related records electronically.</p>
Accuracy of Report Population	
Work Performed	Results
Reviewed the selection process for the AREC population through interviews with the SMG coordinator.	<p>The SMG coordinator obtained the report population from the SLIS list population according to criteria issued each year by UCOP: the AREC population for 2012 included all campus SMGs and persons with a salary above this year compensation threshold of \$250K. (Note that academics have been removed from the AREC population since 2010).</p> <p>The SLIS is maintained by UCOP and is updated regularly from the Personnel Payroll System (PPS) for changes in title code.</p> <p>At UCSC, the SMG coordinator is the only one to enter all compensation updates and new recruitment data into the SLIS minimizing the risk of error.</p>
Reviewed the selected AREC population list against campus administrative and academic org charts to ensure that all members of the SMG were included.	Found all appropriate senior officers to be included in the AREC list.
Reviewed the AREC population against the 2011 AREC listing	Found congruency with the year 2011, given the changes in senior officers from 2011 to 2012.

<p>Reviewed the selected AREC population list against a list of campus top earners, above \$250K, to ensure that no “non SMG” had been mistakenly excluded.</p>	<p>The only non-SMG top earners with compensation above \$250K were academics, therefore not to be included in the AREC report.</p> <p>Reasonable assurance that the list of AREC members was complete and accurate was obtained.</p>
<p><b>Accuracy of Compensation Data: Salaries &amp; Vendors Expenses</b></p>	
<p><b>Work Performed</b></p>	<p><b>Results</b></p>
<p>Obtained the Distribution of Payroll Expenses (DOPE) report for each AREC member for calendar year 2012 to verify the different types of compensation received by each of them.</p>	<p>Congruency in cash compensation was found for each AREC member. This included compensation types other than the annualized base salary, such as auto and house relocation allowances.</p> <p>Note: In cases of hiring or salary increases during 2012, we considered the number of months worked and the fact that the last month of compensation for the calendar year is shown on the DOPE, but is only to be distributed as cash compensation on the first month of the following year.</p>
<p>Verified that no direct payments made to the AREC members during the year had been omitted for actual compensation and that all moving cost reimbursements had been accounted for and disclosed on the AREC.</p> <p>Obtained independent reports of vendor history to obtain the list of all direct payments and all moving costs for 2012 AREC executives.</p>	<p>We did not identify any direct payments that could have been counted as compensation.</p> <p>All reimbursed moving expenses for new SMG members in 2012 were accurately accounted for and accurately classified as taxable income or non-taxable income.</p>
<p><b>Accuracy of Compensation Data: W-2 Reconciliation Performed by the Payroll Office</b></p>	
<p><b>Work Performed</b></p>	<p><b>Results</b></p>
<p>Obtained W-2 reconciliations performed earlier by the Payroll Manager for each of the AREC executives.</p> <p>Re-performed the reconciliation for all executives.</p>	<p>The W-2 reconciliations performed by the Payroll Office were all found to be accurate.</p>
<p>Performed several cross-checks: From the draft AREC report’s Annualized Base Salary and Total Cash Compensation with the data from the DOPE reports, and the PPS Record of Earnings.</p>	<p>No inaccuracies were found; each discrepancy could be explained and was recorded.</p>

<b>Compensation Summaries and Potentially Compensable Transactions Individual Certification</b>	
<b>Work Performed</b>	<b>Results</b>
Reviewed all Compensation Summaries for accuracy and proper certification.	All Compensation Summaries were found to be congruent with the AREC report figures and properly signed and dated by each of the AREC executives.
Reviewed all PCT questionnaires for proper certification and possible additional documentation.	All PCT questionnaires were found to be properly filled out, dated and signed by the AREC executives.  Overall, reasonable assurance of the accuracy and completeness of the AREC report was obtained and communicated to the SMG coordinator.