



AUDIT AND ADVISORY SERVICES
(510) 642-8292

650 UNIVERSITY HALL
BERKELEY, CALIFORNIA 94720-1170

July 14, 2006

CHANCELLOR ROBERT BIRGENEAU
Chancellor's Immediate Office

Re: Audit No. 503, Chancellor's Administrative Fund and House Maintenance Account

The attached final report presents the results of Audit No. 503, Chancellor's Administrative Fund and House Maintenance Account. This follows review of our draft audit report by cognizant individuals within the Chancellor's Immediate Office.

Since management's comments have been incorporated into the report, no further response is necessary at this time. However, we may follow up in the future to determine what actions regarding the observations have been taken. We would appreciate it if your staff would please destroy all previous drafts of this report.

The cooperation and assistance provided during the audit are greatly appreciated. Please convey our thanks to those involved. If you have any questions, please call me at 2-8293 or Principal Auditor Sharon Kurek at 2-2111.

Handwritten signature of Stephanie Siri in cursive script.

Stephanie Siri
Director

Enclosure

cc: Associate Chancellor Cummins
Acting Associate Vice Chancellor and Controller Ellis
Director Morel
University Reed



UNIVERSITY OF CALIFORNIA, BERKELEY AUDIT AND ADVISORY SERVICES

AUDIT NO. 503

CHANCELLOR'S ADMINISTRATIVE FUND AND HOUSE MAINTENANCE ACCOUNT

JULY 14, 2006



Sharon Kurek
Auditor-In-Charge



Stephanie Siri
Director

UNIVERSITY OF CALIFORNIA, BERKELEY
AUDIT & ADVISORY SERVICES
AUDIT NO. 503
CHANCELLOR'S ADMINISTRATIVE FUND AND HOUSE MAINTENANCE ACCOUNT

I. BACKGROUND

In conjunction with a series of efforts launched in late 2005 to address executive compensation concerns, Audit and Advisory Services (A&AS) performed a review of processes associated with the Chancellor's Administrative Fund (CAF) and the House Maintenance Account (HMA) expenditures at the direction of the University Auditor's Office.

The Administrative Fund and the House Maintenance Account are provided by action of The Regents to Principal Officers of The Regents and to certain Officers of the University. At UC Berkeley, the Administrative Fund is allocated to the Chancellor to supplement the Chancellor's departmental budgets and provide a resource for the reimbursement of certain expenses which would otherwise not be reimbursable under University policies, such as amounts in excess of limits for travel and entertainment. The HMA is allocated to the Chancellor to support the operation and maintenance of the University-provided residence. All disbursements made from the CAF and HMA must be for a recognized business purpose.

II. AUDIT OBJECTIVE AND SCOPE

The purpose of our audit was to evaluate the overall business controls and compliance with policy for the funds under review, including functional separation of duties, and to review on a limited basis the CAF and HMA expenditures to ensure expenditures were in compliance with University policy and were appropriate. In addition, expenditures were reviewed to determine if any such reimbursements constituted a taxable benefit to the recipient. The audit covered activities and transactions in fiscal year 2005-06 as of June 1, 2006.

The Chancellor received \$39,700 for CAF and \$158,500 for HMA for FY 2005-06. The expenses are recorded on the general ledger via the campus procurement card or through the accounting system, Berkeley Financial System (BFS), by the Chancellor's Immediate Office (CIO). Per the Accounting Manual A-253-27, Administrative Fund Payments, the Controller's Office is required to review supporting documentation for CAF expenditures including an adequate explanation of the business purpose to determine whether any expenditures are subject to income taxes based on documentation submitted by the recipient and to ensure that expenditures charged to the CAF are properly documented. As a result, the CIO and the Controller's Office are reviewing the appropriateness and documentation of the expenditures.

The policies for the CAF are detailed in Section A-253-27 of the Accounting Manual, which incorporates the requirements of IRS regulations, and the HMA requirements are detailed in Business and Finance Bulletin G-45: Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors that was issued December 15, 2005.

III. AUDIT RESULTS

For the most part, proper controls and procedures have been implemented to ensure compliance with relevant policies governing the CAF and HMA. However, we found opportunities to strengthen controls in the areas of accounting and reporting HMA expenses, personal-benefit-related expenses, and the process for submitting CAF expenditures to the Controller's Office. Detailed observations and recommendations follow.

IV. OBSERVATIONS AND RECOMMENDATIONS

A. HMA Accounting Requirements

We found that the Chancellor's Immediate Office (CIO) has not implemented a process to identify expenses for the HMA by the expense categories defined in G-45 Sections II – X. According to the policy, each location must establish a separate account in the location general ledger for each category of expense. Separate accounts are not required if a location general ledger system has the capacity to segregate the account categories, such as by project code or sub-budget codes within an account (e.g. flexfield chart field at UCB). Tracking by the expense categories are necessary to facilitate the preparation of the Annual Report of Fiscal Year Expenses of the President/Chancellor as required under Section XIII of the policy. The first reporting period will be November 1, 2005 to October 31, 2006.

We recommend that the Chancellor's Immediate Office:

- (1) establish attributes in the general ledger to allow for tracking and reporting of expenses by the categories identified in the policy;
- (2) implement procedures to identify expenses for the HMA by the expense categories defined in G-45 Sections II – X; and
- (3) ensure that expenditures are recorded in the general ledger to aid with the preparation of the Annual Report of Fiscal Year Expenses of the President/Chancellor.

Management Response

The Chancellor's Immediate Office concurs with the recommendations. We have tracked HMA expenses by item, date of purchase and amount for many years, but not by category. The CIO will establish attributes in the general ledger to

allow for tracking and reporting of expenses by the categories identified in the new policy, implement procedures to identify HMA expenses by the expense categories defined in the new policy, and ensure that expenditures are recorded in the general ledger to aid with the preparation of the Annual Report of Fiscal Year Expenses of the Chancellor. We plan on having the above implemented by October 31, 2006.

B. Personal-Benefit-Related Expenses

We found that the CIO has implemented a process for support staff to report time incurred on behalf of personal errands or other duties for the Chancellor. However, they understood that the policy required reporting of time in excess of 15% of the total duties assigned to the staff rather than reporting all time devoted to personal use. During the audit, A&AS informed the CIO and University House staff that G-45 Section II.E requires staff to report all time devoted to personal duties. According to G-45 Section II.F, personal use of equipment-related expenses, such as cable television, Internet connection, telephone, fax machine, or other equipment is not taxable to the Chancellor if it is equivalent to 15% or less of the total use of the equipment or service on an annual basis. The value of taxable expenses must be reported on the Annual Report of Taxable Expenses of the President/Chancellor. The first reporting period will be November 1, 2005 to October 31, 2006.

We recommend that the Chancellor's Immediate Office:

- (1) remind University House staff and the Chancellor that the policy requires support staff to report all time incurred on behalf of personal errands or other duties for the Chancellor; and
- (2) ensure that reports of staff time devoted to personal services performed for the Chancellor contain any time spent on personal errands.

Management Response

The Chancellor's Immediate Office concurs with the recommendations. Since November 30, 2005, the CIO has provided the Chancellor with monthly reports on the activities of each staff member assigned to University House. The CIO will remind University House staff and the Chancellor that the policy requires support staff to report all time incurred on behalf of personal errands or other duties for the Chancellor and ensure that reports contain all time spent on personal errands. We plan on having the above implemented by October 31, 2006.

C. CAF Expenditures Reviewed by the Controller's Office

The CIO Business Office prepares the CAF monthly expenditure reports that must be completed for those who use the checking account option in accordance

with the Accounting Manual A-253-27. However, the monthly reports have historically included the CAF activity that is already recorded on the general ledger. Since UC Berkeley no longer has a checking account, the monthly expenditure reports for the Checking Account Option are no longer required. These reports were meant to gather the detail on expenses paid via checking account, so the accounting office would have the information in order to record the activity onto the general ledger as required by policy. However, the Controller's Office is required to review supporting documentation for CAF expenditures to determine whether any expenditures are subject to income taxes based on documentation submitted by the recipient, and to ensure that expenditures charged to CAF are properly documented per the Accounting Manual A-253-27, Administrative Fund Payments.

We recommend that the Chancellor's Immediate Office:

- (1) cease the preparation of the monthly expenditure reports required for Checking Account activity; and
- (2) develop an alternative process to provide the supporting documentation for all CAF expenditures to the Controller's Office, such as providing the monthly detailed general ledger, supporting documents and the master list of events within University House.

Management Response

The Chancellor's Immediate Office concurs with the recommendations. Per your recommendation, we will cease preparation of monthly expenditure reports. Instead, we will submit supporting documentation of CAF expenses monthly and the master list of events within University House. We plan on having the above implemented by October 31, 2006.