

UNIVERSITY OF CALIFORNIA
OFFICE OF THE UNIVERSITY AUDITOR
OFFICE OF THE PRESIDENT

UNIVERSITY OF CALIFORNIA MERCED
UNIVERSITY HOUSE AND ADMINISTRATIVE FUND EXPENSES
Internal Audit No. 06A016B
July 2006

Audit Conducted by:
Frank Wong, Principal Auditor

Executive Summary

Introduction

We have completed a review of expenditures incurred in connection with the use and maintenance of University House, the Chancellor's official residence, and expenditures made using administrative funds allocated to the Chancellor at the University of California Merced (UC Merced). Administrative funds are used for advances or reimbursements for expenses incurred by certain officials of the University to defray expenses for entertaining and other related expenses incurred by such officials in fulfilling their official University responsibilities. At UC Merced, approximately \$21,400 in administrative funds was allocated for Fiscal Year 2004-2005 to the Chancellor. Approximately \$21,300 was charged to the Chancellor's Administrative Fund during the fiscal year. For Fiscal Year 2004-2005, approximately \$73,300 was spent on University House in the following general categories: general maintenance and household expenses (\$28,200), grounds maintenance (\$7,600), and other expenses, primarily furniture and fixtures (\$37,500).

Objectives and Scope

The objective of this review was to ensure the expenditures incurred for University House and the expenditures from administrative funds allocated to the Chancellor complied with University policy and were for appropriate University business purposes. In addition, the expenditures were reviewed to determine if the Chancellor received any taxable benefit. The scope of the review included University House and administrative fund transactions that occurred during Fiscal Year 2004-2005.

We sent an Administrative Fund Questionnaire and a Housing Questionnaire to personnel in the Chancellor's Immediate Office, reviewed responses to the questionnaires noting any responses requiring follow-up, interviewed the University House manager and other personnel as considered necessary, obtained and analyzed data for University House and Administrative Fund expenditures looking for transactions that appeared to be large or unusual, selected a sample of transactions based on both the results of our analytical review and judgment, and obtained and reviewed supporting documentation for the selected transactions. We tested 5 administrative fund transactions that totaled approximately \$11,500 (54% of total Administrative Fund expenditures), and 7 University House transactions that totaled approximately \$31,600 (43% of University House expenditures).

Overall Conclusion

University House and Administrative Fund expenditures generally complied with University policy and were for appropriate University business purposes. We did not identify any transactions that would have provided a taxable benefit to the Chancellor. However, there were a few instances of noncompliance related to the completeness of supporting documentation and the appropriate use of Administrative Funds.

Management Actions

Management action plans have been developed for each of the Opportunities for Improvement included in the report.

Opportunities for Improvement and Action Plans

- 1. Formal procedures and practices should be established to ensure that the Chancellor's Office is ready to implement the provisions of University policy G-45, Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors.**

University policy G-45 established requirements for reporting expenses incurred in support of the official responsibilities of the President and Chancellors. The policy requires that each location use standard expense categories defined in the policy to prepare an Annual Report of Fiscal Year Expenses of the President/Chancellor and an Annual Report of Taxable Expenses of the President/Chancellor. The Annual Report of Fiscal Year Expenses is due 45 days after the end of the fiscal year. The Annual Report of Taxable Expenses covers the period from November 1 through October 31 and is due by the fourth working day of November. The policy applies to expenses incurred on or after November 1, 2005. Discussions with personnel at the Chancellor's Immediate Office and UC Merced Facilities indicate that, while existing data could be summarized in ways that would allow them to meet the requirements of G-45 reporting, formal procedures have not been developed and documented. Without formal documented procedures, reports may not be accurately or consistently prepared.

Action Plan: Formal documented procedures will be instituted before August 15, 2006.

- 2. The documented delegated authority for approving the Chancellor's expenses is not consistent with current practice.**

In July 2003, the Chancellor requested that authorization for approving her expenditures be reassigned from Financial Management at UCOP to the Assistant Chancellor and Chief of Staff at UC Merced. This request was approved by the Vice President – Financial Management at UCOP. The Chancellor's expenditures included in our samples were approved by the Controller rather than by the Assistant Chancellor and Chief of Staff. The current practice whereby the Controller reviews and approves the Chancellor's expenditures is preferred since the Controller does not report directly to the Chancellor and can exercise a more independent review. The delegation of this responsibility to the Controller should be reflected in an updated authorization letter.

Action Plan: Effective immediately, all documents are to be approved by the Assistant Chancellor and the Controller. In addition, we will request an update of our delegation by August 31, 2006 to indicate the dual signature above pending a determination by the Office of the President of approval guidelines for Chancellors.

- 3. One Administrative Fund expenditure transaction was inconsistent with the intended use of the funds.**

The stated purpose of the administrative fund is to provide additional resources to the Principal Officers of The Regents and to certain Officers of the University that would not otherwise be available for the performance of their official responsibilities, specifically in the areas of travel, entertainment, gifts, and other official University business that contributes to

one of the University's major functions of teaching, research, patient care, or public service. The use of funds is not intended for the purchase of inventorial equipment. One expenditure included in our sample of administrative fund expenditures was for the purchase of a BBQ trailer to be used at campus events. The purchase of the BBQ trailer was a valid University business expense that was appropriately documented and procured. However, the purchase of inventorial equipment using administrative funds is not consistent with the purpose of the funds as cited above.

Action Plan: *Effective immediately, Administrative Funds will not be used to purchase inventorial equipment.*

4. Sufficient documentation was not always available to support expenditures.

In one instance, an administrative fund expenditure lacked sufficient written justification. The travel and entertainment policies, which also apply to and govern the use of administrative funds for travel and entertainment, require a clear business nature/purpose and written justification for exceptional items. In the instance identified, although upon inquiry it was established that there was an appropriate business purpose for the Associate to the Chancellor to accompany the Chancellor on an overseas trip, the voucher did not provide sufficient justification to enable an independent third party reviewer to make that determination.

Action Plan: *Effective immediately, sufficient documentation for all of the Chancellor's expenditures will be attached to the documents. Business justification for all expenditures will be indicated on the documents.*