

UCLA AUDIT & ADVISORY SERVICES



Edwin D. Pierce, CPA
Director
August 9, 2006

CONFIDENTIAL

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UNIVERSITY AUDITOR PATRICK REED:

Re: Chancellor's Administrative Fund and Residence Audit Report - #06-604003

Enclosed is the final report on the Chancellor's Administrative Fund and Residence for the Los Angeles campus. As requested, these results are being addressed to you with copies to local management.

The purpose of this project was to review the campus' administration of the Chancellor's Administrative Fund and House Maintenance account for compliance with University policies and procedures. The scope of our review was fiscal year 2004-05.

Based on the work performed within the scope of the audit, the campus was found to be administering both the Chancellor's Administrative Fund and House Maintenance accounts in accordance with prevailing University policy.

Opportunities for improvement were identified in the areas of recordkeeping and the documented explanation of the expense. Attention also needs to be focused on preparing for the campus to meet new system-wide reporting requirements on Chancellor's expenses.

Please let me know if you have any questions.

A handwritten signature in black ink, appearing to read "Edwin D. Pierce".

Edwin D. Pierce
Director

Enclosure

AUG 14 2006

cc: S. Abeles
N. Abrams
R. Beatty
A. Mongelli
S. Morabito
D. Neuman
S. Olsen
M. Olsson
K. Smith

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CHANCELLOR'S ADMINISTRATIVE FUND
AND RESIDENCE
AUDIT REPORT #06-604003

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Background

At the request of the University Auditor, UCLA Audit & Advisory Services (AAS) conducted a review of the Chancellor's Administrative Fund and House Maintenance accounts expenses. This report summarizes the results of our review.

The University of California (UC) supports some of the Chancellor's expenses through allocations from the Searles Endowment Fund. At UCLA, the Searles Fund (38070) is the source of funding for the Chancellor's Administrative Fund and House Maintenance accounts.

Purpose and Scope

The purpose of this project was to review the campus' administration of the Chancellor's Administrative Fund and House Maintenance accounts for compliance with University policies and procedures. The scope of our review was fiscal year 2004-05.

Summary Opinion

Based on the work performed within the scope of the audit, the campus was found to be administering both the Chancellor's Administrative Fund and House Maintenance accounts in accordance with prevailing University policy.

Opportunities for improvement were identified in the areas of recordkeeping and the documented explanation of the expense. Attention also needs to be focused on preparing for the campus to meet new systemwide reporting requirements on Chancellor's expenses.

Audit Results and Recommendations

Administrative Fund

At UCLA, the 2004-05 Searles Fund allocation for the Administrative Fund was \$38,700. The fund is utilized by both the Chancellor and Executive Vice Chancellor primarily to support development and university relations efforts. UC Accounting Manual Chapter (AMC) A-253-27, *Administrative Fund Payments*, is the governing policy for management of the Chancellor's Administrative Fund. The Manual provides written guidelines for fund activity, allowable uses, forms and reports that are used to substantiate expenses from the fund.

The funds are maintained in a campus account and all disbursements are made through established University processes in accordance with University of California Office of the President (UCOP) and local policy. No outside bank account exists. A small number of purchases were made by Procurement Cards held by the Assistant to the Executive Vice Chancellor or the Chancellor's Residence Manager. Neither the Chancellor nor Executive Vice Chancellor has a Procurement Card. Expenditures in the account in fiscal year 2004-05 totaled \$23,844.

Expenses include travel for University business and donor cultivation; meals with donors, professional, or industry contacts; flowers for faculty, staff, donors or their families in condolence, illness, or other occasions; and tickets to performing arts events. Documentation was obtained from the Chancellor's Office, Records Management and other corporate accounting offices, and personal records as necessary. Executive and venue calendars, and Advance, the UCLA Donor tracking system, were accessed as needed to verify dates and participation.

- A. Travel and entertainment expenses incurred by the Chancellor and Executive Vice Chancellor at UCLA are being reviewed and approved by the Director of Finance in the Chancellor's office. University policy requires that travel and entertainment reimbursements be approved by someone who does not report

directly or indirectly to the person receiving reimbursement or benefiting from the expense.

Recommendation: The Chancellor should approve the expenses incurred by the EVC. The procedures for approval of travel and entertainment expenses for the Chancellor need to be addressed in a realistic and feasible manner. We understand that this is being addressed by UCOP.

Response: Concur. It is our understanding that UCOP Financial Management is in the process of amending these policies to further clarify who should be reviewing travel and entertainment expenses.

- B. Documentation maintained by the Chancellor's Office and submitted to Corporate Accounting in support of the expenses did not always contain sufficient detail or explanation to allow for ready assessment of propriety and compliance with policy. For some transactions, supplemental information had to be gathered by A&AS from other sources.

Recommendation: Recordkeeping in support of these expenses needs to be more thorough and comprehensive. Detailed information should be obtained and retained by the Chancellor's office in support of expenses charged to the fund, particularly for meals and entertainment. Care should be taken to ensure that expense claims are well supported by detailed receipts, a listing of all attendees with first and last names and their relationship to the University, with an explanation of how the expense relates to University business.

Response: Concur. The implementation of Express Plus for travel and entertainment reimbursements will enhance the level of detailed documentation available and will provide the reviewers with better tools to aid in their review.

- C. The UC Accounting Manual allows unspent funds from the Administrative Fund allocation to be carried forward to the next fiscal year, as long as the unspent amount does not exceed 25% of the allocation. In fiscal year 2004-05, 39% was unexpended at year-end. Chancellor's office staff explained that there had been changes in the office and that the new staff had been extremely conservative in the use of the Administrative Fund allocation. The money remained in the fund and was placed into the unexpended balances account. In fiscal year 2005-06, discussions were held with Facilities Division and action was taken to use the unspent funding to address overdrafts incurred in the maintenance of the Chancellor's residence that were not covered by the House Maintenance allocation.

Recommendation: Chancellor's office staff need to exercise care to monitor, not only overspending, but also under-spending of special allocations such as the Administrative Fund. We understand that local procedures are being developed to address this issue. When made aware of this issue as a result of this audit, the Chancellor's office submitted a retroactive carry forward request to UCOP, explaining the balance and what subsequent actions had been taken. The request was approved by UCOP.

Response: Concur. Normally, this should be detected by General Accounting; however, it is our understanding that multiple accounts were established against the administrative fund, which may have created some confusion about whether the carryforward exceeded the 25% threshold. Corporate Financial Services will work with the Chancellor's Office to review utilization of these funds in advance of fiscal closing to ensure that funds are neither over- nor under-spent.

Development Effort Allotment

As part of the Searles fund, UCLA receives \$30,000 in permanent funding annually for development efforts to be used at the Chancellor's discretion. To help visibility and monitoring of this allocation, the money is isolated in a separate sub-account within the

Administrative Fund account. The funding has been used for entertainment costs related to fundraising and to acknowledge donors who have made substantial contributions to the University. Expenses for fiscal year 2004-05 were primarily for membership dues in social clubs and season tickets for local venues. The social clubs are used by the Chancellor and other campus executives to entertain significant donors, prospective recruits, and other constituents. Documentation was obtained from the Chancellor's Office, Records Management and other corporate accounting offices, as necessary. Expenses were examined and were found to be in keeping with the development effort purpose of the allocation. The following operational issue was identified:

- A. The Chancellor's office purchases a box, which seats six, for one of the season ticket series at the Hollywood Bowl. Because of the sensitive nature of the event (e.g., to discuss donation activity) and to allow for private conversation, all six tickets may not be used for all performances. Also, last minute cancellations occasionally occur for various reasons and the tickets may be given to staff or go unused.

Recommendation: The Chancellor's office should provide better documentation and accounting for the use of the Hollywood Bowl tickets and those for the other venues. A local procedure should be developed and implemented that addresses the purchase of the box, how the tickets will be used and accounted for, and how the tickets may be used in the case of a last minute cancellation. When the tickets are used for donors, a step in the process should require that a contact report be entered into the Advance system.

Response: Concur. The Chancellor's Office is in the process of developing a policy and procedure for use of the tickets with input from External Affairs and Corporate Financial Services, which will include documentation regarding their use. As part of that procedure, tickets used for donors will be input as a contact report into the Advance system.

Chancellor's Residence

UC provides an annual allocation for University-provided housing to each Chancellor. The allocation amount varies based on the campus location. The allocation of House Maintenance funding of \$117,200 to UCLA is placed into a separate account linked to the Searles Fund to facilitate visibility and oversight. The account is used for expenses in the following categories: General Maintenance, General Household, Ground Maintenance, Support Staff, Equipment, Capital Improvements and Residence Entertainment. All expenditure activity is conducted through established University processes. Many of the maintenance expenses incurred were for services provided by UCLA Facilities Management and were assessed to the account through campus recharge.

University of California Office of the President (UCOP) promulgated a new policy for reporting activity for University-provided housing: Business and Finance Bulletin (BFB) G-45, *Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors*. These new implementing requirements dated December 15, 2005, are effective for expenses incurred on or after November 1, 2005. Under the IRS Special Accounting Rule, the first reporting period will be November 1, 2005 to October 31, 2006.

AAS staff toured the residence and grounds and met with the Residence Manager to discuss utilization of the property for personal and University business use. Of the 7,000 square feet of living space, approximately 690 square feet are used personally by the Chancellor and his wife. The balance of the house is maintained in impeccable order such that it can be used for access by the public with minimal notice. The residence is regularly used for events and to entertain overnight University guests, usually donors, public dignitaries, and retired faculty and staff. Facilities Use Charges are not assessed as use of the residence is limited to those events with University-wide benefit.

A sample of expenses charged to the account were tested and found to be in accordance with UCOP and local policy. All of the transactions tested were verified to be for the maintenance and operation of the Chancellor's residence and related events.

- A. Under the new policy, residence maintenance expenditures must be separated into seven different categories and reported annually to the local campus accounting office. Costs related to entertainment and events held at the Chancellor's Residence are to be shown separately in the report.

Recommendation: Chancellor's office staff should formally document how UCLA will comply with the new policy. We understand that preliminary meetings have taken place and that further efforts are already underway to formalize a procedure.

Response: Concur. A meeting was convened after the policy was issued that included Corporate Accounting and the Chancellor's office staff for the purpose of discussing how to code cost information in a manner that would facilitate the capture of required information for reporting purposes. Since the policy was issued mid-year, a determination was made to utilize project codes for fiscal 2006 and to revisit the chart of accounts for subsequent fiscal years. Follow-up meetings have been calendared for this purpose and a formal procedure will be drafted by September 1, 2006.