

The Regents of the University of California

COMMITTEE ON AUDIT

March 18, 2004

The Committee on Audit met on the above date at UCSF–Laurel Heights, San Francisco.

Members present: Regents Bodine, Connerly, Hopkinson, Lozano, and Moores;
Advisory member Pitts

In attendance: Regents Bustamante, Dynes, Johnson, Kozberg, Marcus, Montoya, Murray, Parsky, Preuss, Sayles, and Seigler, Regents-designate Anderson, Novack, and Ornellas, Faculty Representative Blumenthal, Secretary Trivette, Associate Secretary Shaw, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Doby, Drake, Foley, and Gomes, Chancellors Carnesale, Cicerone, Córdova, Greenwood, Tomlinson-Keasey, and Yang, Acting Chancellor Chandler, Executive Vice Chancellor Gray representing Chancellor Berdahl, University Auditor Reed, and Recording Secretary Nietfeld

The meeting convened at 11:15 a.m. with Committee Chair Connerly presiding.

1. **READING OF NOTICE OF MEETING**

For the record, it was confirmed that notice had been given in compliance with the Bylaws and Standing Orders for a Special Meeting of the Committee on Audit, for this date and time, for the purpose of discussing issues related to the University's willed body program.

2. **WILLED BODY PROGRAM AUDIT AND CORRECTIVE ACTIONS**

President Dynes explained that disturbing allegations had been made concerning the willed body program at the Los Angeles campus. It is troubling that a program that is so important to medical education and the advancement of medical science has been violated in such a fundamental way. The University is fully committed to restoring the integrity of the program. He announced that former Governor George Deukmejian had agreed to lead a systemwide review of the University's willed body programs and to recommend appropriate corrective and preventative actions. Vice President Drake will serve as the University's representative on this issue. The President anticipated that the review would lead to action steps that will not only restore the Board's confidence in the program but also the trust that families have placed in the University by participating in the willed body program.

Vice President Drake described the University's willed body programs and explained their value both to the University and to the broader society. He commented that cadaver

dissection represents the beginning of formal medical education. The cadaver is the first patient with whom medical students interact, not to address the person's disease but to learn information that will be brought to bear on the thousands of living patients who follow. The University's medical centers obtain cadavers through a willed body program, in which a living donor or the family of a deceased person chooses to donate remains to science for educational or research purposes. In the case of living donors, the individual registers with a local program and makes his or her wishes known to responsible family members. A record of the donation is kept in a database at the school until the time of death, at which time the program is notified, the decedent is transferred to a University laboratory, and the body is embalmed and stored prior to its distribution for use.

Vice President Drake explained that cadavers are used in several ways. The most widely recognized use is for whole body dissection by freshman medical students, but the University's willed body programs receive 200 or more donations per year, of which only about 50 are required for anatomy classes. There are two principal reasons that a surplus is accepted. First, not all specimens are suitable for cadaver dissection. Second, there are a great number of important uses outside the medical student anatomy course. Surgeons in residency training or returning for post-graduate courses learn or refresh their knowledge on human specimens. Research into new surgical procedures depends on an adequate supply of anatomical material. Also, preserved human tissue is used therapeutically for surgical patches or in reconstructive procedures. Students in dentistry, physical therapy, and nursing also need to acquire a full understanding of anatomy. Much of this teaching and research takes place at institutions separate from medical schools, but these other institutions may not have the means to receive and prepare specimens. They rely on schools of medicine to provide them with material essential to their curricula. In addition to medical and educational uses, there are important uses in the development of commercial products such as safety equipment. A single cadaver may provide specimens for many specific uses.

Dr. Drake emphasized that these programs depend on the sensitivity and veracity of the University to handle the bodies responsibly and respectfully. Most employees are honest and dedicated, but the recent events illustrate the need for vigilance. He reported that there will be a top-to-bottom review of each of the University's willed body programs. After that fact-finding mission is complete, procedures will be developed to ensure to the extent possible that inappropriate handling of donations will be prevented.

Dr. Drake stressed that, although the alleged criminal activity of a few individuals is shocking, there is no evidence of any inappropriate use of any of the specimens involved. The activity that led to the arrests was financial impropriety. The administration will be dedicated to assuring the public and the Regents that, at the end of the review, the willed body programs at the University of California set the standard for excellence nationally.

Regent Carnesale expressed his regret that the situation had caused emotional pain to the loved ones of those who had left their bodies for medical education and research. He

reported that officials responsible for the willed body program had believed that the checks and balances of the program were adequate to protect against the improper use of the bodies that were donated. The investigation into how alleged criminal activities avoided early detection is ongoing. The UCLA Police Department is investigating the violations of the law, with the help of other agencies as appropriate. The abuse of the policies that were in place is being investigated by the campus' Audit and Advisory Services through an audit of the inventory of donated anatomical remains and a management review of the program. Audit and Advisory Services will oversee implementation of recommended changes. The two University employees involved in the controversy, Mr. Henry Reid, director of the willed body program, and Mr. Keith Lewis, a clinical assistant, are on unpaid leave. Mr. Reid has been arrested and released on bail, and operation of the willed body program has been suspended. A third person, Mr. Ernest Nelson, has also been arrested and released. Telephone and e-mail hotlines have been set up at UCLA to respond to the questions and concerns of the families of donors, and University representatives hope to be permitted by the court to contact the families of donors, as well as living persons who have completed donor forms providing for their bodies to be made available to the School of Medicine after their deaths, to express regret and to answer their questions. Chancellor Carnesale observed that this list of responses is not complete. The campus intends to identify all individuals associated with violations of law and policy involving the willed body program and to see that appropriate actions are taken.

Senior Vice President Mullinix provided a timeline that had been established as the result of input from or interviews with UCLA and Office of the President personnel. He recalled that there had been an adverse incident associated with the UCLA willed body program (WBP) reported in the press in 1993 in which a box of cremated remains waiting to be scattered at sea was found to contain non-anatomical material. The District Attorney and the Department of Human Services (DHS) investigated and concluded that it was not unusual to find non-anatomical material among the remains of cadavers that have been used for gross anatomy classes. In 1996, two individual lawsuits and a class-action suit were filed relating to this event.

In 1997, Mr. Henry Reid was hired as director of the willed body program at UCLA. Prior to his hiring, an FBI data base review was run on Mr. Reid and his references were checked. No problems were identified. Director Reid developed new WBP policies and procedures, and in 1999 the program underwent an internal audit that resulted in recommendations regarding its operations. This was followed up by a detailed report from program officials indicating that the recommendations had been addressed and significant improvements in management practices had occurred.

Mr. Mullinix continued that on December 31, 2002 Mr. Reid reported that the WBP had ceased to provide anatomical materials outside of UCLA. In early 2003, the Office of Clinical Services Development was contacted by the Department of Human Services regarding Mr. Ernest Nelson, a supplier of anatomical materials to a research company

that was being audited. Mr. Nelson claimed to have obtained the material from the University. DHS was concerned about whether Mr. Nelson had a legitimate source of supply and also suspected that he had made unauthorized use of UCLA letterhead and documents during the sale of those materials. Clinical Services Development was provided with copies of Mr. Nelson's documents, which included serology reports asserting that the material had been tested and found free of blood-borne disease.

When questioned in March 2003, Mr. Reid provided a list of materials that he had supplied to Mr. Nelson in 2002, as well as documents allegedly signed by Mr. Nelson stating that the materials provided by UCLA may be infectious. University of California staff met with the Department of Human Services to discuss Mr. Nelson's operations. UCLA also announced a formal policy prohibiting distribution of willied body parts to non-UCLA entities. On March 24, 2003, DHS informed the University that it intended to notify tissue banks that UCLA tissues had not been tested for HIV, as attested by Mr. Nelson. In October 2003, the University's Corporate Compliance Committee recommended that the compliance officers from each of the medical centers should work with the willied body program directors to review existing policies and determine whether or not it would be possible to develop a systemwide set of program guidelines.

In November 2003, the University received a claim from Mr. Nelson's attorney alleging that Mr. Reid had agreed to pay \$241,000 in exchange for return of the materials but had not done so and that UCLA had created the false serology reports, thereby damaging Mr. Nelson's business. Mr. Reid provided documentation discrediting that assertion and denied the existence of any agreement. On November 19, 2003 the University responded to Mr. Nelson's attorney's letters, clarifying claim procedures and inviting further discussion of the allegations. In January 2004 materials were received from Mr. Nelson's attorney with further specifications relating to his claims. The University subsequently requested additional information, and such materials were provided, including a purported letter from Mr. Reid to Mr. Nelson confirming the agreement to pay the \$241,000 for the return of the materials and the alleged serology reports. The documents appeared to have been forged.

On February 6, 2004 Internal Audit was asked to assist in an investigation of Mr. Nelson's claim and concluded that the documents appeared to be forgeries. Internal Audit raised some questions regarding the sufficiency of the program's record-keeping and tracking systems. These deficiencies raised concerns in the Office of the General Counsel and the matter was referred to outside counsel for further review. When Mr. Reid was interviewed by outside counsel, he admitted that he had received money for materials provided from UCLA. During the investigation, Mr. Reid's subordinate, Mr. Keith Lewis, was identified as a co-conspirator in the case. Their names and other pertinent information were turned over to the UCLA Police Department. On March 6, 2004, Mr. Reid was arrested and charged with felony grand theft. Concurrently, University Auditor Reed launched a systemwide audit review of the University's willied body programs and the UCLA School of Medicine suspended operations of its willied

body program. On March 10, the University undertook a detailed review of these activities in an attempt to develop as much information as possible.

In concluding his presentation, Senior Vice President Mullinix observed that the situation involving two dishonest employees who had acted in collusion with an apparently dishonest third-party vendor had been difficult to prevent. On the other hand, he suggested that the University should carefully assess its policies pertaining to the need for anatomical procedures, the appropriate source of anatomical materials, and the control and disposal of them to assure that controls are in place and are followed.

Regent Bustamante stressed that the University is taking all appropriate steps to ensure that such a situation does not happen again.

3. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of November 19, 2003 were approved.

4. **APPROVAL OF EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2004 AND EXTERNAL AUDIT COVERAGE OF THE NATIONAL LABORATORIES**

Committee Chair Connerly stated that the President's recommendation should read as follows:

The President recommends that both the scope, as reflected in the audit and communication plan, of the external audit of the University for the year ending June 30, 2004 and the external audit coverage of the national laboratories be approved, including the audit fees as shown in [Attachment 1](#).

[The audit and communications plan was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

It was recalled that the annual external audit plan of The Regents' external auditor provides for a financial audit of the University of California, including the University of California Retirement System. Additional audit coverage by the external auditor includes the National Collegiate Athletic Association audits, the Revenue Bond Indenture audits, audits of the five medical centers, audit procedures at the national laboratories, and the federal grants and contracts (A-133) audits.

At the November 2002 meeting, The Regents approved the appointment of PricewaterhouseCoopers LLP as external auditor for the three-year period beginning with the fiscal year ending June 30, 2003. The total cost of the core audit for the fiscal year ending June 30, 2004 is \$2,571,750, including out-of-pocket expenses, required audit

scope changes for 2004, and the scope of work at the national laboratories necessary to opine on the consolidated financial statements of the University of California.

Audit Scope Changes for Fiscal Year 2004

Governmental Accounting Standards Board Scope Changes

Scope changes for 2004 are required as a result of the University's implementation of Governmental Accounting Standards Board (GASB) Statements 39 and 40. GASB Statement No. 39 requires the University to discretely present the financial statements of the ten campus foundations in its annual report this year. The Office of the President has been working closely with the management of the campus foundations in order to accumulate the necessary financial information. PricewaterhouseCoopers is required to perform additional audit procedures related to the inclusion of the foundation financial statements.

GASB Statement No. 40 will require the University to expand significantly the footnote disclosure for investments and securities lending activities. While Statement No. 40 is not effective until June 30, 2005, it requires PwC to have certain discussions with management during the course of this year's audit in preparation for implementation next year.

Audit Scope Alternatives at the National Laboratories

Vice President Broome recalled that the Committee had requested that PricewaterhouseCoopers outline the requirements for a full scope audit examination at each of the national laboratories. In the case of a full scope audit, the materiality guidelines would be established based on a financial statement audit for each laboratory. Due to the classified nature of laboratory activities, the scope of the auditor's work would be restricted. Therefore, the external auditors would be able to issue either a limited scope opinion or possibly a disclaimer of opinion. The limited scope opinion or disclaimer would extend to each laboratory's balance sheet at June 30, 2004.

An alternative to a full scope audit would be to perform agreed-upon procedures work. The fee for this work would depend on the nature and scope of the procedures involved. Mr. Mike Schini of PwC emphasized that, in the case of a full scope audit, his team would not have access to certain classified accounts. The University has suggested that a more useful approach would be the concept of agreed-upon procedures. The audit would comment on matters such as problems with complying with generally accepted accounting principles and additional risk areas in order to provide management with an actionable list.

In response to a question from Committee Chair Connerly, Vice President Broome confirmed that an assessment of the appropriate cost of coverage of the national

laboratories had been performed. She added the cost of the core audit would increase by six percent, which is in accordance with the University's contract with PwC.

The Committee agreed to recommend that the audit fees for 2004 be as shown in [Attachment I](#).

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

5. **AMENDMENT OF BYLAW 12.1 - COMMITTEE ON AUDIT CHARTER AND RELATED GOVERNANCE DOCUMENTS**

The President recommended that:

- A. Following service of appropriate notice, Bylaw 12.1 - Committee on Audit be amended as indicated in [Attachment II](#).
- B. The University of California Internal Audit Mission Statement, the Internal Audit Management Charter, and the Outline of University of California Audit Management Plan be updated to incorporate the changes to Bylaw 12.1 and to incorporate additional recommendations by the Committee on Audit, as indicated in [Attachments III and IV](#).

It was recalled that during fiscal year 2002-03 the Committee had commissioned a review of various aspects of the University's audit activities by the consulting firm Protiviti. The review recommended amendment of the Bylaw charging the Committee on Audit in order to more closely align the charge with the responsibilities of the Committee as they currently exist and to assure that the Committee has authorities consistent with the expectations for audit committees under the Sarbanes-Oxley Act.

Regent-designate Novack asked about the mechanisms that would be used by The Regents with respect to paragraph (c) of Bylaw 12.1, which states that the Committee will "monitor the University's system of internal controls and the adequacy of the ... policies and practices related to financial accounting and compliance and ethics reporting." University Auditor Reed commented that the Committee performs this role when it recommends to the Board the adoption of the annual internal audit program and external audit activities. He acknowledged the impracticality of Regents' being directly involved in the control monitoring. The documents being recommended for amendment create the governance structure which is a part of the controls as well.

Committee Chair Connerly believed that an important contribution by the Regents would be to ensure that management is undertaking appropriate investigations and reporting the results to the Committee.

Regent Lozano stressed that the new Bylaw was quite clear as to the checks that are in place as well as what activities the Committee should monitor. The Committee's role is to make sure that internal audit undertakes a series of actions that are then reported to the Committee.

The meeting adjourned at 11:55 a.m.

Attest:

Secretary