

The Regents of the University of California

COMMITTEE ON AUDIT

January 19, 2005

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

Members present: Regents Connerly, Hopkinson, Lee, Lozano, Moores, Novack, Ruiz, and Sayles

In attendance: Regents Dynes, Ornellas, and Wachter, Regents-designate Juline and Rosenthal, Faculty Representative Blumenthal, Associate Secretary Shaw, University Counsel Thomas, Treasurer Russ, Senior Vice President Mullinix, Vice President Broome, University Auditor Reed, and Recording Secretary Nietfeld

The meeting convened at 4:10 p.m. with Committee Chair Novack presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETINGS

Upon motion duly made and seconded, the minutes of the meetings of September 22 and November 18, 2004 were approved.

2. UPDATE ON WILLED BODY PROGRAM

Vice President Drake recalled that an investigation into the suspicious activities of an employee at the Los Angeles campus had led to an arrest by UCLA police in March 2004. The employee stands accused of financial impropriety associated with his duties as director of the UCLA Willed Body Program (WBP). An associate who was not a UC employee was also arrested, and both of these individuals are awaiting trial. A third individual, who was a UCLA employee, was dismissed from his position but not arrested. These cases garnered extensive national press coverage and were the subject of a report made to the Regents at the March 2004 meeting.

During the decade prior to these events, incidents had occurred at the UCLA, UC Irvine, and UC Davis programs which, although smaller in scope and of a different nature, raised questions about the governance and oversight of Willed Body Programs generally. Prompted by concerns raised by the most recent episode, Vice President Drake explained that President Dynes had asked him look into these programs closely and suggest changes in governance, oversight, and policy that would reduce the chance of future irregularities.

Chancellor Carnesale had asked former Governor Deukmejian to oversee a review process of the UCLA program; President Dynes subsequently asked Governor Deukmejian to expand the scope of his review and recommendations to include all five of the University's Willed Body Programs. Governor Deukmejian agreed to do this, and the

efforts of staff at the Office of the President were subsumed under the Governor's systemwide review.

In April 2004 a meeting was held with Governor Deukmejian, where a five-phase plan to address the issues was considered. The goal was to develop a series of recommendations that would describe a model Willed Body Program that would be expected to be practical and cost effective, provide high-quality material for the important educational and research programs which depend on anatomic specimens, and most importantly to guarantee that these programs operate in a fashion that recognizes the invaluable gift that a willed body donation represents.

Vice President Drake acknowledged the efforts of his colleagues in the Office of the President, especially Dr. David Taylor, Executive Director of Medical Services for the Office of Clinical Services Development, and the four Willed Body Program directors, who have exhibited a great degree of cooperation and professionalism in a difficult period. He further acknowledged the contributions of Governor Deukmejian, who was an active, engaged leader and a sharp, impartial critic of the University's policies and procedures.

Vice President Drake explained that Phase I of the plan had involved the gathering of information from site visits, from audits of campus materials, and interviews and discussions on a national level about the operation of willed body programs. Phase II began with the convening of a systemwide working group which included personnel from the Office of the President, including the General Counsel, and the Willed Body Program directors. The working group met with its counterparts at the annual meeting of the American Association of Clinical Anatomists. Governor Deukmejian joined the group in late March 2004; among his suggestions was that the University hire an industrial consultant firm to assist with identifying best practices for the Willed Body Program. In Phase III, a Request for Proposal was issued in May 2004, and Navigant was chosen to perform the work in the role of a partner with the University. Navigant delivered preliminary recommendations to the deans in October 2004; the report was revised during November to reflect suggestions made by University personnel. The implementation of the recommendations from the consultant's report will constitute Phase IV and will be undertaken throughout calendar year 2005.

Vice President Drake summarized the recommendations contained in the Navigant report and highlighted the changes made to date. The systemwide working group has adopted a policy that forbids the use of brokers or agents to distribute material to end users. While there is no evidence that these outside users have misused the material, several campuses had a practice of providing material to a vendor who would in turn provide it to the end user. The problems that led to the dismissal of an employee in 1999 at the Irvine campus and to the arrest of the two individuals at UCLA were related to this practice.

A new governance structure has been put into place which will assist in protecting the Willed Body Programs. On each campus, an executive director will report directly to

the vice chancellor for health affairs. The program director oversees the day-to-day operations of the Willed Body Program. There will be an anatomical materials review committee on each campus that will be chaired by the executive director and have a faculty advisor. This committee will convene formal meetings monthly, and minutes from the meetings will be produced. The Cadaver Anatomic Advisory Board, chaired by the vice chancellor, will meet at least annually and will include members of the campus community and at least one lay member. Within the Office of the President, a new position has been created to provide systemwide coordination of the Willed Body Programs. Vice President Drake noted that he chairs the systemwide Willed Body Oversight Committee, which has representatives from the University Auditor, the Office of the General Counsel, and Clinical Services Development. Three members of the Anatomical Materials Review Committee from each campus also serve with this group.

Vice President Drake addressed the issue of security. He reported that electronic locks had been installed at each program site to provide limited, recorded, identifiable access. Video cameras are installed or on order on all of the campuses. There will be a projected donation rate that estimates the rate at which donations should occur. The Office of the President is in the process of creating an electronic donor base. Two campuses are on the FileMaker program that will be used during 2005, while the three other campuses will come on line in the spring. The Digital Donor Library will allow staff to determine when a donor registered and when the donation was made.

Dr. Drake summarized the steps that had been taken to date, noting that the RFP for the Digital Donor Library had been posted on January 6, 2005, with responses due by February 4. He acknowledged the professionalism of the staff who had worked on these issues and anticipated that the University's programs would set "gold standards." Phase V represents the ongoing management of the Willed Body Programs.

Governor Deukmejian recalled that, in addition to the arrest of a Willed Body Program employee at UCLA, since 1993 there have been several incidents involving the alleged mishandling of bodies and cadaveric material by the programs at UCLA, Irvine, and Davis. Early in 2004, President Dynes requested that he lead a review of not only the UCLA Willed Body Program but similar programs throughout the University. In March 2004, University Auditor Reed initiated an audit of the Willed Body Programs. At the same time, Executive Director Taylor initiated visits to all campus Willed Body Programs to review their policies and practices. Vice President Drake also visited several of the programs.

Governor Deukmejian explained that, as an outside independent consultant to the University of California regarding its Willed Body Programs, he had been asked to provide the following services:

- Review and evaluation of the scope, practices, and methodologies used as part of the University's systemwide assessment

- Identification of areas where further assessment is needed
- Evaluation of the merits and suitability of proposed solutions and strategies for enhancing quality and strengthening oversight
- Review of recommendations on the development and implementation of systemwide standards and practices that will enable UC Willd Body Programs to meet and maintain the highest professional and ethical standards
- Coordination with outside experts or consultants to complete this effort

Mr. Deukmejian recalled that, as described by Vice President Drake, he had recommended that the University engage an outside consulting firm experienced in designing special management standards that could be used by the University to develop a state-of-the-art WBP that would be transparent, accountable, secure, and efficient and which could become a model for similar programs throughout the nation. He also recommended that the University explore the use of the latest technology to support the management of the program and to maintain control over all cadaveric materials donated to the program. When the proposed standards and redesigned programs were completed, they should be examined by an experienced forensic analyst or consultant to determine if the program's systems could be violated in any way.

The results of the audit and campus visits revealed that the WBP is decentralized, that there is a lack of standards in accounting for specimens, record keeping, oversight responsibility for returns, and disposition of cadaveric material. It was found that at some programs, the physical security, timeliness, and documentation in record keeping and tracking the return and disposition of these materials were less than adequate and that policies, procedures, and allocation decisions were not documented.

After taking into consideration all of the comments received, Navigant has issued its final report, which has been reviewed by a forensic analyst, Dr. John Grant Rhode, PhD, CPA, Certified Fraud Examiner.

It became apparent that campus WBPs are a critical part of the medical education and research conducted at the UC medical schools. However, these programs do not have the resources and oversight necessary to ensure that they are conducted with the highest degree of ethical, professional, and security standards. If the programs are not incorporated into a restructured, systemwide Willd Body Program that is upgraded in resources, personnel, equipment, security, management, and oversight by the Office of the President, incidents similar to those that have occurred in the past may be expected to recur.

The Governor expressed his satisfaction that the proposed new Willd Body Program, which incorporates a new business model, governance and oversight, core processes, new technology, and key infrastructure upgrades required to support an effective WBP, will

meet the goal of the University to restore and retain the trust of the donor community and establish an ethical and professional program that may become a model for the nation. With any reorganization or structuring, effective implementation is the key to success. Governor Deukmejian recommended that the Willed Body Program be funded and that the Regents be provided with regular, periodic reports indicating the progress being made to fully implement and monitor the program. There must be a genuine commitment by the Board of Regents, the Office of the President, and the deans of each medical school to implement and monitor the Willed Body Program on each campus if the University is to avoid any further embarrassing incidents and to maintain the trust of the donor community.

Committee Chair Novack commented that to date 5,000 hours had been expended on efforts to improve the operation of the University's Willed Body Programs and asked for an estimate of how much more time would be required. Vice President Drake believed that a further 2,000 hours would be necessary. There will also be the addition of three to five new positions across the system. In order to fund the program improvements, the recharge rates will increase to reflect more appropriately the cost of mounting a first-class program. The rate structure has been irregular in the past, and the charges have been low compared with the commercial market.

In response to a question from Regent Lee, Vice President Drake explained that the length of time required to complete the project would depend upon how much time is required to develop the software for the Digital Donor Library.

Regent Hopkinson felt strongly that the recommendations presented to the University by Navigant for implementation would require formal approval by The Regents. There should also be an explanation if any of the recommendations are not being adopted.

Regent Lozano suggested that the Regents would need to be kept up to date as to how and when the recommendations were being implemented. She agreed that it should be treated as a formal audit report.

Committee Chair Novack asked that the Navigant report be distributed to the Regents. President Dynes agreed to also provide a follow up on what has been accomplished. It was agreed that the report from the administration would be presented at the May meeting.

(At this point President Dynes and Regent Hopkinson left the meeting, and Senior Vice President Mullinix and Vice President Broome joined the meeting.)

3. **UPDATE ON PROTIVITI RECOMMENDATIONS AND UNIVERSITY MANAGEMENT PROPOSED APPLICATION OF SARBANES-OXLEY**

University Auditor Reed recalled that when he had last provided an update to the Committee on the implementation of the Protiviti recommendations pertaining to the Sarbanes-Oxley legislation, three items were pending, all of which are on the agenda for today's meeting. He then asked University Counsel Thomas to comment on management's proposals with respect to Regental service on the Committee on Audit.

University Counsel Thomas recalled that the Committee had been informed by letter of the recommendations of the General Counsel pertaining to the independence of members of the Committee. She noted that in formulating the proposed guidelines, most of the regulations issued by the Securities and Exchange Commission pursuant to Sarbanes-Oxley had been followed. The proposal does not include a standard prohibiting employment within the University of California as that situation is covered in Bylaw 8.1. It is recommended that the Committee on Audit refer the proposed guidelines for member independence to the Special Committee on Regents' Procedures for consideration. The recommended guidelines are as follows:

- Members of the Committee on Audit could not be partners, members, executive officers, or hold similar positions with law firms, accounting firms, consulting firms, investment banks, or financial advisory firms doing business with the University.
- Members of the Committee on Audit could not be employees or affiliates of any outside entity doing substantial business with the University. The term "substantial business" would be determined by the business judgment of the Nominating Committee at the time appointments are made.

Ms. Thomas reported that the conclusion had been reached that additional standards are not necessary with respect to the appointment of Regents whose immediate family member may be employed or otherwise compensated for provision of services to the University.

In response to a question from Regent Lee, University Counsel Thomas anticipated that the University's alumni would be considered to be outsiders for purposes of independence. She noted that, under Sarbanes-Oxley, persons who have been retired for a certain length of time are defined as independent for purposes of service on a board. She confirmed for Regent Lee that additional information may be sought from the Regents in addition to what is provided in the Conflict of Interest report.

Regent Lozano suggested that it would be helpful to have a definition of "substantial business" rather than leaving it in the hands of the Nominating Committee. University Counsel Thomas noted that intention would be for the Senior Vice President-Business

and Finance, in consultation with the General Counsel, to bring a specific recommendation each year to the Nominating Committee.

Regent-designate Juline asked whether a conflict of interest would exist in the case of a family member who is involved in the financial accounting of the University as an employee. University Counsel Thomas noted that the Nominating Committee would have standards for a conflict of interest. Mr. Juline stressed that a Regent with these connections should not be able to serve on the Committee.

Regent-designate Rosenthal raised the issue of whether or not a student Regent could be appointed to the Committee. He also raised the concern that it could be difficult to identify enough Regents to form a quorum. University Counsel Thomas acknowledged that this had become a national problem. For this reason, she believed that it would be in the best interests of the University to keep the definition of "substantial" fluid from one year to the next. As to the question of the student Regent, her inclination was that a student who was employed by the University would not be able to be a member of the Committee on Audit.

Committee Chair Novack commented that the Faculty Representatives are non-voting members of The Regents and asked whether they would be permitted to participate in meetings of the Committee. University Counsel Thomas did not see any need to change the present procedures. Regent Lee did not see any conflict in their role, noting that the Chairman could request that they excuse themselves if necessary. Regent-designate Juline observed that influencing an outcome, even by non-voting participants, would need to be considered.

Committee Chair Novack summarized the Committee's discussion, noting that the General Counsel had confirmed that it would be appropriate to forward the implementation plan to the Special Committee on Regents' Procedures for its consideration. The Committee members concurred.

4. **STATEMENT OF CORE VALUES FOR THE UNIVERSITY OF CALIFORNIA**

University Auditor Reed recalled that ethical behavior is not a new concept within the University. There are a great many policies, statements, codes, and commitments that apply to every segment of the University of California community. For example, the Regents recently reviewed the detailed Faculty Code of Conduct, first adopted in 1971 and updated last in July 2003. Auditors, attorneys, counseling staff, and many other groups within the University community adhere to their own professions' codes of ethics. The Regents voluntarily adopted a conflict of interest policy in July 1971, well before the existence of the 1974 State statute that governs this area. Since 1996, the University's Medical Centers have been actively involved in development of ethical standards, among other things, as a part of their overall compliance program.

More than thirty institutions of higher education, as well as those of the federal government and private industry, were surveyed to ascertain common assertions on ethics as reflected in their statements and practices. Many campuses and the University-operated national laboratories have already promulgated location-specific statements in this regard. Existing University policies, codes of ethics or conduct, statements of community values, standards of practice, and many other documents were reviewed to identify the current level of commitment to ethical practices and to note any areas where overarching guidance might be enhanced.

Much work has been done to promulgate ethical guidance on matters applicable to the University. The most efficient means to develop a system-wide policy and to further encourage a culture of high ethical conduct was to derive overarching principles embodied in a Statement of Core Values of the University of California below from a compendium of existing policies, guidelines, and statements. Following appropriate consultation with University constituencies, the President will issue the Statement of Core Values accompanied by the University of California Standards of Business Conduct which bridges the principles to existing policies, practices, and expectations. In the future, online training in this area will be made available to all members of the University community.

Senior Vice President Mullinix stressed that, in the spirit of shared governance, the statement would be need to be considered by the Academic Council before adoption.

The Core Values Statement is designed to be simple and straightforward, to reflect existing commitments to ethical conduct, and to encourage awareness of their importance. A policy compendium, which will become an Appendix to the final Standards of Business Conduct, is being developed. It is believed that these documents and the associated training will help assure that a culture of ethical conduct prevails throughout the several missions of the University.

Committee Chair Novack pointed out that a revised version of the statement distributed to the Committee contained suggestions received from Regents. The additions and deletions are shown below.

***STATEMENT OF CORE VALUES
OF THE UNIVERSITY OF CALIFORNIA***

Members of the University of California community are committed to the highest ethical standards in furtherance of our mission of education, research, and public service. We recognize that we hold the University in trust for the people of the State of California. Our policies, procedures, and standards provide guidance for application of the core values stated below in our daily life and work as members of this community. We are committed to:

Honesty Ethical Conduct. We will conduct ourselves ethically ~~be honest~~ in our dealings with and on behalf of the University.

Excellence. We will conscientiously strive for excellence in our work.

Accountability. We will be accountable as individuals and as members of this community for our ethical conduct and for compliance with applicable laws and University policies and directives.

Respect. We will respect the rights and dignity of others.

UNIVERSITY OF CALIFORNIA STANDARDS OF BUSINESS CONDUCT

Introduction

Purpose—Pursuit of the University of California mission of teaching, research, and public service requires a shared commitment to the core values of the University as well as a commitment to the ethical conduct of all University activities. In that spirit, the *Standards of Business Conduct* are a statement of our belief in ethical, legal, and professional behavior in all of our dealings inside and outside the University.

Applicability—The *Standards of Business Conduct* apply to all members of the University community, including faculty, staff, students, volunteers, contractors, agents, and others associated with the University. Organizationally, the *Standards* apply to campuses, the National Laboratories, the Office of the President, the Division of Agriculture and Natural Resources, campus organizations, foundations, alumni associations, and support groups.

1. ***Ethical Conduct***

Members of the University community will conduct themselves ethically, honestly, and with integrity in all dealings. ~~When business activities are not governed by specific laws, regulations or University policies,~~ Principles of fairness, good faith, and respect as well as laws, regulation, and University policies will govern our conduct with others both inside and outside the community. Each situation needs to be examined in accordance with the *Standards of Business Conduct*. No unlawful or unethical practice can be justified on the basis of customary practice, expediency, or achieving a “higher” purpose.

2. ***Individual Responsibility and Accountability***

Members of the University community must exercise responsibility appropriate to their positions and delegated authorities. They are responsible to each other, the University, and the University's stakeholders both for their actions and their

decisions not to act. Each individual is expected to conduct the business of the University in accordance with the *Core Values* and the *Standards of Business Conduct*, exercising sound judgment and serving the best interests of the institution and the community.

3. ***Respect for Others***

The University is committed to the principle of treating each community member with respect and dignity. The University prohibits discrimination and harassment and provides equal opportunities for all community members and applicants regardless of race, color, national origin, religion, sex, gender identity, pregnancy, physical or mental disability, medical condition (cancer-related or genetic characteristics), ancestry, marital status, age, sexual orientation, citizenship, or status as a covered veteran. ~~In addition,~~ The University is committed to creating a safe and drug free workplace. Following is a list of the principal policies and reference materials available in support of this standard:

- ***Faculty Code of Conduct***
- ***Personnel Policies for Staff Members***
- ***Academic Personnel Manual***
- ***Faculty Handbook***
- ***Policy on Sexual Harassment and Complaint Resolution Process***
- ***Regents Policy on Nondiscrimination***
- ***Campus Policies on Workplace Violence***

The University's health sciences enterprises are committed to the ethical and compassionate treatment of patients and have established policies and statements of patient rights in support of this principle.

4. ***Compliance with Applicable Laws and Regulations***

Institutions of higher education are subject to many of the same laws and regulations as other enterprises, as well as those particular to public entities. There are also additional requirements unique to higher education. Members of the University community have an obligation to become familiar with the laws and regulations bearing on their areas of responsibility. Many but not all legal requirements are embodied in University policies. Failure to comply can have serious adverse consequences both for individuals and for the University, in terms of reputation, finances, and the health and safety of the community. University business will be conducted in conformance with legal requirements, including contractual commitments undertaken by individuals authorized to bind the University to such commitments.

The Office of the General Counsel has responsibility for interpretation of legal requirements.

5. ***Compliance with Applicable University Policies, Procedures and Other Forms of Guidance***

University policies and procedures are designed to inform our everyday responsibilities, to set minimum standards, and to give University community members notice of expectations. Members of the University community are required to transact all University business in conformance with policies and procedures and accordingly have an obligation to become familiar with those that bear on their areas of responsibility. Each member has a responsibility to seek clarification on a policy or other University directive he or she finds to be unclear, outdated or at odds with University objectives. It is not acceptable to ignore or disobey policies if one is not in agreement with them, or to avoid compliance by deliberately seeking loopholes.

In some cases, University employees are also governed by ethical codes or standards of their professions or disciplines - some examples are attorneys, auditors, physicians, and counseling staff. It is expected that those employees will comply with applicable professional standards in addition to laws and regulations.

6. ***Conflicts of Interest or Commitment***

Employee members of the University community are expected to devote primary professional allegiance to the University and to the mission of education, research, and public service. Outside employment must not interfere with University duties. Outside professional activities, personal financial interests, or acceptance of benefits from third parties can create actual or perceived conflicts between the University's mission and an individual's private interests. University community members who have certain professional or financial interests will disclose them in compliance with applicable conflict of interest or conflict of commitment policies. In all matters, community members will take appropriate steps, including consultation if issues are unclear, to avoid both conflicts of interest and the appearance of such conflicts.

7. ***Ethical Conduct of Research***

All members of the University community engaged in research are expected to conduct their research with integrity and intellectual honesty at all times and with appropriate regard for human and animal subjects. The University prohibits research misconduct. Members of the University community engaged in research will not: make up data or results; change or omit data or results to misrepresent results in the research record; or intentionally misappropriate the ideas, writings, research, or findings of others. All those engaged in research are expected to pursue the advancement of knowledge while meeting the highest standards of

honesty, accuracy, and objectivity. They will demonstrate accountability for sponsors' funds and will comply with specific terms and conditions of contracts and grants.

8.Records: Confidentiality/Privacy and Access

The University is the custodian of many types of information, including that which is confidential, proprietary, and private. Individuals who have access to such information are expected to be familiar and to comply with applicable laws, University policies, directives, and agreements pertaining to access, use, protection, and disclosure of such information. Computer security and privacy are also subject to law and University policy.

Information on the University's principles of privacy or on specific privacy laws may be obtained from the respective campus or laboratory information privacy office.

The public right to information access and the individual's right to privacy are both governed by State and federal law, as well as by University policies and procedures. The legal provisions and the policies are based upon the principle that access to information concerning the conduct of the people's business is a fundamental and necessary right of every person, as is the right of individuals to privacy.

Internal Controls

Internal controls are the processes employed to help ensure that the University's business is carried out in accordance with these *Standards*, University policies and procedures, applicable laws and regulations and sound business practices. They help to promote efficient operations, accurate financial reporting, protection of assets and responsible fiscal management. All members of the University community are responsible for internal controls. Each business unit or department head is specifically responsible for ensuring that internal controls are established, properly documented and maintained for activities within their jurisdiction. Any individual entrusted with funds, including principal investigators, is responsible for ensuring that adequate internal controls exist over the use and accountability of such funds. The University has adopted the principles of internal controls published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

Use of University Resources

University resources, such as University computers, may be used only for activities on behalf of the University. They may not be used for private gain or personal purposes except in limited circumstances permitted by existing policy where incidental personal use does not conflict with and is reasonable in relation

to University duties (e.g., telephones). Members of the University community are expected to treat University property with care and to adhere to laws, policies and procedures for the acquisition, use, maintenance, record keeping, and disposal of University property. For purposes of applying this policy, University resources is defined to include but not be limited to the following, whether owned by or under the management of the University (for example, property of the federal government at the National Laboratories):

- Cash, and other assets whether tangible or intangible; real or personal property;
- Receivables and other rights or claims against third parties;
- Intellectual property rights;
- Effort of University personnel and of any non-University entity billing the University for effort;
- Facilities and the rights to use of University facilities;
- The University's name;
- University records, including student and patient records; and
- The University information technology infrastructure network.

11. ***Financial Reporting***

All University accounting and financial records, tax reports, expense reports, time sheets and effort reports, and other documents including those submitted to government agencies must be accurate, clear and complete. All published financial reports will make full, fair, accurate, timely, and understandable disclosures as required under generally accepted accounting principles for government entities, bond covenant agreements, and other requirements. Certain individuals with responsibility for the preparation of financial statements and disclosures, or elements thereof, may be required to make attestations in support of the *Standards*.

12. ***Reporting Violations and Protection from Retaliation***

~~Suspected material violations of the *Standards of Business Conduct* may constitute improper governmental activities.~~ Members of the University community are ~~encouraged~~ expected to report known or suspected violations of these *Standards* under the provisions of the *Policy on Reporting and Investigating Allegations of Suspected Improper Governmental Activities* (Whistleblower Policy). Managers and persons in supervisory roles are required to report allegations presented to them and to report suspected improper activities that come to their attention in the ordinary course of performing their supervisory duties. Reporting parties, including managers and supervisors, will be protected from retaliation for making such a report under the *Policy for Protection of Whistleblowers from Retaliation and Guidelines for Reviewing Retaliation Complaints* (*Whistleblower Retaliation Policy*).

The following amendments were proposed for consideration:

- The word “business” has been struck from the title “University of California Standards of Conduct.” This change needs to be made throughout the document.
- In Section 7, *Ethical Conduct of Research*, there should be a stronger statement about multi-use of institutional review boards and appropriate boards for preclinical research. Insert the word “knowingly” before “omit.” The term “make up” should be replaced by “falsify.”
- In light of the last bullet, the addition of “such as University computers” in Section 10, *Use of University Resources*, is not required. The word “network” should be removed from the last bullet.

Committee Chair Novack raised the issue of whether the standards would apply specifically to Regents as being members of the University community. It was the consensus of the Committee that Regents should be included, as should Officers of the University and of The Regents.

Regent-designate Rosenthal pointed out that students are also governed by student codes of conduct and suggested that these codes should be examined for conflicts with the proposed statement. The list should include student codes of conduct. Mr. Rosenthal pointed out that student organizations tend to use the University’s name, which is often not sanctioned by the campus administration. He was concerned that harm could result from this prohibition. University Auditor Reed confirmed that the administration had not undertaken a review of all student codes of conduct for conflict; this step will be taken prior to a final recommendation.

Regent-designate Juline suggested that consideration be given to whether employees would be required to sign the statement. Mr. Reed noted that the intention would be to provide training to employees to elevate their awareness of the core values statement. He agreed to present an implementation plan at the May meeting. Senior Vice President Mullinix added that the statement would be included in the mandatory ethics training program for certain employees, although they have not yet been designated. He was hopeful that the University would be able to implement on-line training and certification.

Committee Chair Novack asked University Auditor Reed to incorporate the proposed amendments and that the revised statement be distributed to the Committee. It was his understanding that the draft would also be transmitted to Faculty Representative Blumenthal. Given the timetable, it is unlikely that the proposal could be presented at the March meeting.

Regent Novack noted that the goal would be to implement all of the Protiviti recommendations by the May 2005 meeting.

5. UPDATE ON AN OUTSIDE EXPERT FOR THE AUDIT COMMITTEE

Senior Vice President Mullinix recalled that Protiviti had recommended that the University consider the addition of an outside advisor to the Committee who would be able to provide broad technical advice. While it was initially decided not to proceed with this recommendation, in November 2004 the Committee concluded that it would be desirable to include such an advisor or advisors. A position description was developed based upon the Security and Exchange Commission regulations, as well as the New York Stock Exchange's amplification of those rules.

Committee Chair Novack explained that the position description had been distributed to alumni leaders and the vice chancellors for development; a March 1 deadline has been set for the submission of applications.

Regent Sayles conveyed on behalf of Regent Hopkinson her question as to why this advisory position is being pursued. Mr. Mullinix believed that it would be helpful for the Committee to have a knowledgeable outside advisor. The composition of the Board does not provide the flexibility to recruit a such a person. He commented on the role that outside financial experts had played in advising the Audit Committee at Yale.

Regent Ruiz believed that the job description should outline the role of the advisor to the Committee and the reason for such a position.

Regent Novack outlined the process he proposed be followed in the recruitment and selection of outside advisors. If the number of applications is not large, the Committee Chair will select the top five candidates, with input from members of the Committee and staff at the Office of the President. They could be contacted by telephone, and the suggestion could be made that the applicants visit an open session of The Regents. Regent Novack stated his intention to provide the Committee with an update at the March meeting, including the possible presentation of names. Under the best-case scenario, the advisors would be selected and introduced at the May meeting. If this were not possible due to the volume of the applications, Regent Novack anticipated that the advisors would be fully on board by June 30, 2005. He anticipated that two to three advisors would be chosen for a three-year term which would be at the pleasure of the Committee Chair. The advisors would provide input to the Chair and the Committee upon request. They would be expected to attend the Committee's Open Session meetings and could, at the invitation of the Committee Chair, also attend Closed and Regents Only sessions. They possibly would be asked to attend the meetings of the Committee on Finance.

Committee Chair Novack presented the expectations for the outside financial advisors. He noted that they would be expected to sign a confidentiality agreement. They would be formally covered by University indemnification, which could require action by The Regents. An orientation session similar to that for Regents should be provided. There would be no formal attendance requirements. Reimbursement for travel expenses would be provided, but their time would be given voluntarily.

In response to a question from Regent Moores, Senior Vice President Mullinix explained that the Regents are indemnified in the course and scope of their normal duties. University Counsel Thomas added that the indemnification is statutory.

Vice President Broome noted that many members of the campus foundations are financial experts with particular expertise in higher education. She emphasized the importance of the advisors' having experience in this field. She urged that there be consultation with the University's external auditors. Committee Chair Novack confirmed that Mr. Schini of PricewaterhouseCoopers had reviewed the position description.

6. **SUMMARY OF SECOND QUARTER INTERNAL AUDIT ACTIVITIES, 2004-05**

University Auditor Reed reported that 55 audit reports and 31 investigation reports had been issued in the second quarter, none of which contained any conclusions of material deficiencies in internal controls. He noted that several factors had influenced audit productivity during the second quarter, which is 10.5 percent below the planned level of audit resources. Thirteen auditors were added during the period, but the same number left to accept new positions, six of whom received promotions within the University. Sarbanes-Oxley continues to fuel the demand for auditors, thus thinning the recruitment pool, and the University is unable to offer competitive salaries. More contract labor and interns have been engaged than called for in the audit plan. The audit directors have been asked to look at different ways to manage their projects by adjusting the scope of their audits. There is serious concern about the University's ability to compete in the marketplace.

A second factor which affected the productivity was the need to devote 7,300 hours to projects from the prior fiscal year, while a third factor is a 31 percent rise in investigations over 2003-04. The Bonus Leave program which provided employees with two leave days during the winter holiday cost 1,000 hours of work.

The audit of ethics topics will be undertaken in the fourth quarter, once the Office of General Counsel has in place the outside attorneys who will take on that work. AuditTracker is making progress; the campus audit committees take seriously that fact items that are not addressed will be forwarded to the Committee on Audit.

University Auditor Reed commented that the next round of quality-assurance reviews would be undertaken in the third quarter. This involves a peer review program that is carried out by three audit directors on a sister campus. The team reviews audit projects in detail and conducts interviews with customers, local audit committee members, and audit staff. Under the professional standards, these quality-assurance reviews will form part of the basis for an external peer review of the audit program in 2005-06.

Time was devoted to preparation for the All Auditors Conference, which enrolls 140 auditors from around the system. Mr. Reed noted that Committee Chair Novack, President Dynes, and Senior Vice President Mullix would address the conference. There will be five general sessions with topics ranging from auditing ethical values to the budget planning process, and case studies will be provided on the business change model at the Los Alamos National Laboratory.

Regent Ruiz was interested in the structure of the internal audit process. University Auditor Reed agreed to meet with Regent Ruiz and provide him with background information on the audit program at the University of California. He noted that all of the governance documents and audit manuals are available on the University's website.

University Auditor Reed welcomed input from the Committee on next year's audit plan.

The meeting adjourned at 5:45 p.m.

Attest:

Associate Secretary