

The Regents of the University of California

COMMITTEE ON AUDIT

January 17, 2006

The Committee on Audit met on the above date at the Price Center, San Diego campus.

Members present: Regents Hopkinson, Rominger, Ruiz, Sayles, and Schilling; Advisory member Oakley; Expert Financial Advisor Vining

In attendance: Associate Secretary Shaw, University Counsel Thomas, Senior Vice President Mullinix, Vice President Broome, and Recording Secretary Nietfeld

The meeting convened at 2:35 p.m. with Committee Vice Chair Ruiz presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of November 16, 2005 were approved.

2. **HUMAN RESOURCES ACCREDITATION AND POLICY ASSURANCE PROGRAM**

Senior Vice President Mullinix recalled that at the November 2005 meeting, preliminary information had been provided to the Committee regarding the human resources accreditation and policy assurance program. The Department of Human Resources and Benefits is exploring options to test pilot designs for an HR policy assurance model that includes a single point of accountability for HR policy assurance.

Executive Director Scott explained that the preliminary pilot designs will be initiated at the Davis, Riverside, and San Francisco campuses, the Medical Center at UCSF, and the Lawrence Berkeley National Laboratory. The model will include clearly articulated standards and mechanisms that provide for regular self-assessments, along with a robust peer review for validation purposes. The pilot design will be aligned with and responsive to the findings and recommendations of third-party, audit, and internal reviews which may pertain to the scope of HR policy accountabilities.

UC is forming a partnership with the National Academy of Public Administration (NAPA) to develop a self-assessment and peer-review process. The pilot HR department accreditation process will include standards in broad practice, operations, and service areas, including compensation and benefits, workforce planning and employment, workforce training and development, and employee and labor relations. In addition to assisting with the validation of the HR standards, NAPA will act as the external reviewer and make recommendations on further implementation of the HR accreditation process at other UC locations beyond the pilot programs.

Mr. Scott introduced Ms. Alethea Long-Green, HR Director of Governmental Studies at the National Academy. Ms. Long-Green informed the Committee that NAPA is a private, non-profit 501(c)(3) organization that was Congressionally chartered in 1967 to provide trusted, non-partisan advice on issues of public administration and governance for every branch of government. NAPA is a membership organization of 600 fellows, including former Presidential Cabinet-level executives, scholars, business executives, labor leaders, and public administrators. Ms. Long-Green commented on some of NAPA's recent projects with agencies such as the Federal Bureau of Investigation, the National Institutes of Health, and the Centers for Disease Control. The Academy has between 15 and 20 research projects per year with consortia in areas such as the 21st century leader, the multi-sector workforce, and homeland security. The University has engaged the Academy as an independent, expert organization to assist in building a compliance program. NAPA will assist the University in designing and testing an accreditation process that is transparent, flexible, and repeatable, and this model will provide assurances that HR operations are consistent with the University's policies.

Ms. Patricia Cornwell Johnson, the project director at NAPA, recalled that the HR department accreditation effort had begun in 2002 with the arrival of a new human resources director at the Lawrence Berkeley National Laboratory. He initiated discussions with the Department of Energy about revising the manner in which the DOE conducts its contract performance oversight. An outcome of those discussions was the decision to develop a certified human resources management system that could replace some of the more onerous reporting requirements.

A task force of HR professionals from the various laboratories managed by contractors for the DOE began work on a system that would include defined standards and measures, a process of self-assessment, and periodic peer review. The task force drafted performance standards to address functional HR areas such as strategic management, compensation and benefits, workforce planning and employment, and workforce training and development. The task force sought the assistance of NAPA to validate those standards. Since then, a contract to manage the Lawrence Berkeley National Laboratory has been awarded to the University of California which requires the laboratory to achieve status as an accredited HR organization. The University has taken the lead in this effort by retaining the Academy to evaluate, refine, and validate draft standards. The Academy will add appropriate qualitative and quantitative measures for each standard and incorporate them in the accreditation model. Next, the Academy will add a self-assessment process and test the model at some of the pilot locations and at the Office of the President, following which an independent peer review component will be added. The accreditation model will recognize those organizations that meet established standards and highlight exemplary HR practices. The Academy will deliver to the University recommendations for the roll-out of the model and process, as well as its ongoing administration.

The Academy's approach to accomplish this role is memorialized in a work program which includes orientation to the University and data collection and analysis, followed by the stage

at which NAPA will validate the standards and design and test the self-assessment process. Representatives of the Academy have met with staff in the Office of the President and the designated test sites and have begun an active partnership with them. The Academy is collecting data and exploring appropriate methods for communicating with and involving the larger community. This approach is intended to ensure that the Academy will be able to deliver a system that is transparent, practical, flexible, and responsive to the assurances the Board of Regents is seeking.

Executive Director Scott explained that management's vision of HR department accreditation and assurance is based on having competent HR professionals acting as operating partners to management at UC locations, thereby enabling them to meet, through self-assessment, corrective actions, and peer reviews, the HR policy and assurance requirements of The Regents. The HR assurance model will include policy accountability in the following broad areas:

- People management
- Work management
- Financial management
- Safety management
- Property management

The intention of the program is to provide annual assurance to The Regents that UC locations meet the agreed-upon HR policy requirements of the University of California in designated areas of HR accountability.

In response to a question from Regent Schilling, Senior Vice President Mullinix explained that, while the University does have overarching systemwide policies, they are implemented on the campuses in a number of different ways. The purpose of the accreditation program is to assure that at some level standards are being met.

Regent Sayles asked about the timing of the project. Mr. Scott explained that the representatives from NAPA would conclude their work plan as part of their visit this week. He anticipated that the cycles will have been completed by September 2006. The consultation and project fee will be about \$300,000, which does not include UC staff time.

Regent Ruiz commented on the importance of sustainability and asked how it could be assured with respect to this project. Mr. Mullinix pointed out that the accreditation process involves a systemwide model that requires annual review and certification.

Regent Ruiz asked how success would be defined. Executive Director Scott responded that representatives of the Academy had made it clear that it was critical to have both qualitative and quantitative benchmarks to measure performance. There will be specific metrics tied to the pilot process, the testing, and the implementation. Mr. Mullinix continued that the

University would clearly benefit from the process in areas such as safety and workers' compensation, as well as workforce training and development.

In response to a question from Regent Sayles, Mr. Scott observed that there are several ways that diversity is represented in the HR practices of the University. There is a presumption that HR departments are working with local management teams to identify diversity needs in their recruitment plans and long-term workforce planning. An annual assessment of compensation practices is required in order to assure that there are no adverse impacts on any groups in the workforce. The same is true with benefits.

Regent Ruiz inquired about any reports that would come to the Committee in connection with the accreditation program. Mr. Scott stated the intention to bring the findings of the Academy and progress reports to the Committee. HR staff have been in conversation with Internal Audit about the process and approach.

3. **APPOINTMENT OF REGENTS' EXTERNAL AUDITOR**

The President recommended that The Regents' contract with the current external auditor, PricewaterhouseCoopers (PwC), be continued for an additional three-year period.

Vice President Broome recalled that at the November 1999 meeting, after a formal bid and proposal process, PwC was appointed as The Regents' auditor for a three-year period beginning with the 1999-2000 fiscal year. At the November 2002 meeting, after an evaluation of the existing service arrangements, PwC was appointed as The Regents' auditor for the three-year period beginning with the 2002-03 fiscal year. The expectation during the bid and proposal process was that the firm selected would be retained for a multi-year period.

Ms. Broome reported that a formal evaluation process had been developed and that, based on that process, University management had formally evaluated the quality and delivery of PwC's services in the areas of:

- Expertise
- Higher Education
- Health Care
- Retirement and Employee Benefit Plans
- Investments
- Federal Programs
- Industry Leadership
- Access to Firm Specialists
- Staff Quality and Continuity
- EDP Audit Approach
- Coordination with Management

Evaluations were received from business and financial management at the campuses, medical centers, national laboratories, and the Office of the President. Vice President Broome noted that a summary of the evaluation had been distributed to the Committee. The rating was done on a scale of 1 to 5, with 5 being the highest. The EDP audit approach

received a low rating from the campuses as a result of a change in approach on the part of PwC. The audit was coordinated with the UCOP information technology department rather than with the campuses. Ms. Broome explained that an attempt would be made in the current year to achieve a more balanced approach. The only other area of concern related to staff turnover as a result of increased federal regulations. All locations are pleased with the partner and manager quality and continuity.

The Department of Financial Management negotiated a continuation of the existing contract for a term of three years which provides for annual cost increases of six percent. Audit fees will be adjusted as appropriate as a result of any future changes in the scope of the work. Vice President Broome referred to a summary of actual and proposed fees which had been distributed, noting that PwC had honored the terms of the engagement. With respect to the audit of the national laboratories, in 2006 the University will include the operations of the Los Alamos National Laboratory in the University's financial statements through the period ending May 31. She asked for the Committee's confirmation that there should continue to be the same scope for the eleven-month period July 1, 2005 - May 31, 2006, based on the assumption that the Committee would want a high degree of assurance that the controls remain in place during the transition to the new manager. Fees will drop in 2007 and 2008 due to the exclusion of LANL from the audit.

Expert Financial Advisor Vining was pleased that the University had been able to negotiate an annual increase in fees of 6 percent, because there is a narrowing of the number of firms that are capable of performing this complex type of audit. PricewaterhouseCoopers may be the only firm with the capabilities the University needs. Mr. Vining pointed out that the complexity of the audit operation would be greater with the advent of the joint venture at Los Alamos, because the University would continue to work with PwC, but the joint venture partner will have its auditor, as will the Department of Energy.

In response to a question from Regent Sayles regarding any future need to change audit firms, Vice President Broome believed that such a change was not necessary as long as the firm rotates its personnel. The law requires that, for higher education, the partner on the account must change after seven years, which ensures independence.

Mr. Vining noted that, as the number of firms capable of auditing an entity such as the University of California continues to narrow, one of the things that could occur would be some difficulty in achieving a thorough rotation of personnel. The University must demand that type of rotation throughout the senior manager and partner level. If, after this rotation, the University is no longer satisfied with the firm, it would be required to do a Request for Proposal.

Regent Ruiz suggested that at the beginning of the third year of the contract, management may wish to consider whether there should be an RFP. Vice President Broome confirmed that it would be the intention to do so.

Regent Ruiz confirmed for Vice President Broome that the Committee would support the inclusion of the Los Alamos National Laboratory in the scope of the 2006 audit.

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

The meeting adjourned at 3:20 p.m.

Attest:

Associate Secretary