

The Regents of the University of California

COMMITTEE ON AUDIT

May 17, 2007

The Committee on Audit met on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Regents Blum, Coombs, Island, Lozano, Parsky, Ruiz, Schilling, and Varner; Advisory member Oakley; Expert Financial Advisor Vining

In attendance: Regents Dynes, Gould, Hopkinson, Johnson, Ledesma, Pattiz, Schreiner, and Wachter, Regents-designate Allen, Brewer, and Bugay, Faculty Representative Brown, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Hume, Executive Vice Presidents Darling and Lapp, Vice Presidents Broome, Foley, and Sakaki, Chancellors Birgeneau, Drake, Fox, Kang, Vanderhoef, and Yang, Acting Chancellors Abrams and Blumenthal, University Auditor Reed, and Recording Secretary Smith

The meeting convened at 9:00 a.m. with Committee Chair Ruiz presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of March 15, 2007 were approved.

2. ANNUAL REPORT INTERNAL AUDIT PLAN 2007-08

The President recommended that the Annual Report, Internal Audit Plan 2007-08 be approved.

[The Annual Report, Internal Audit Plan 2007-08 was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

University Auditor Reed reported on the Internal Audit Plan, the objectives of which include provision for coverage of high-risk assessments and core University business activities, broad presence across the University over time and for follow-up work, availability for investigations, consultations, and advice, and additional time allocated for current issues, such as the review of student loan practices. Mr. Reed specifically discussed the time budgeted by the Office of Audit for ethics and executive compensation, Statement on Auditing Standards 112, and information technology security.

The 2007-08 Internal Audit Plan is based on 163,000 hours of controllable time. The breakdown of time allocation is 64 percent audit, 17 percent advisory services, 12 percent investigations, and 7 percent audit support activities.

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

3. **REPORT ON INTERNAL AUDITS OF WILLED BODY PROGRAM, STUDENT LOAN PROGRAMS, CONFLICT OF COMMITMENT, EXECUTIVE COMPENSATION, AND CHANCELLORS' HOUSING AND ADMINISTRATIVE FUND**

University Auditor Reed recalled that in March 2004, a significant issue surfaced at UCLA in the willed body program, resulting in a report to The Regents in September 2005 regarding corrective measures that needed to be made in the management of the program. An audit conducted over the past six months found that most of the corrective measures have been completed. There is oversight over these measures from both a central position in the Office of the President and in the dean's office at each campus. In addition, at the time the recommendations were made to the campuses, each Willed Body Program was asked to take broader responsibility for all human anatomical material that enters the campuses for research or other purposes.

A conflict of commitment audit was conducted to assess the management of outside professional activities of UC faculty, including prior approval and annual reporting, as stipulated in the Academic Personnel Manual of 2001. The Academic Personnel Office requested the audit due to the concern that the policy was not well understood or sufficiently rigorous, with the intent to revise the policy based on audit findings. Compliance with the policy has been lacking in some areas, including the failure to file forms, late filing, lack of required signatures, and unresolved conflict issues.

University Auditor Reed recalled, with respect to the executive compensation audit, that the Office of Audit will present a broader audit to The Regents at the July meeting on all the corrective actions that have been reported to The Regents. With respect to the policy on chancellors' housing and administrative funds, an audit was conducted and the program was found to be compliant.

A survey of University student and alumni lending practices was conducted. It was found that no financial aid personnel owned stock in lending companies on the preferred lender list. In addition, no individuals in the University receive money when students apply for loans through the lenders on the preferred lender lists that are published for each campus. There are other relationships between campuses and lenders, such as event sponsorship or underwriting and advertisement in campus papers and magazines, that could be managed better in

relation to an institutional conflict of interest policy. Individuals holding financial aid positions need better training in conflict of interest policies. With regard to the Alumni Association, each campus has an exclusive relationship with a single lender. This situation is different from student loan practices, however, in that alumni who receive offers from the Alumni Association are aware of the marketing intent of the offers. No individuals in the Alumni Association receive benefits from these exclusive marketing arrangements. All of the above issues will be considered in a future discussion about policies that the University should adopt in this area.

Regent Lozano asked about the plan to improve compliance with the conflict of commitment policy. Mr. Reed responded that the policy as written did not include adequate accountability. Mercer Human Resource Consulting has discussed a template for policy creation, including policy ownership, enforcement, and measurement of policy compliance. These aspects will be built into all policies going forward, including the refinement of the conflict of commitment policy.

4. **REPORT ON AUDIT PROGRAM RESOURCE ASSESSMENT**

University Auditor Reed reported on the audit program throughout the University. The following information is based on 120 auditors in the system, while the Audit Plan is based on 105 auditors, the difference being 12 auditors at Lawrence Livermore National Laboratory who are no longer in the University's audit plan. The auditors have an average of 17.5 years of experience, and 9 years experience at UC. One hundred percent of auditors have bachelors degrees, 36 percent have advanced degrees, and 84 percent have audit certification in various areas. The Audit Plan is based on 95 percent of positions being filled. Turnover continues to be a challenge, averaging 13 percent to 15 percent. In terms of the number of auditors at campuses, UCLA continues to have the most auditors, while Berkeley, Davis, San Francisco, and the Office of the President are stretched on an auditor-to-expenditure basis. Systemwide, UC is more leveraged than other higher education institutions on an auditor-to-employee basis.

5. **UPDATE ON ETHICS BRIEFING**

University Auditor Reed reported that the ethics briefing is designed to reach all 160,000 UC employees, and has currently been delivered to 139,000 people, the difference being those who do not have email addresses. The Office of Audit has designed and delivered to each campus the in-person training materials and has conducted training of trainers sessions. To date, 63,000 employees have been trained. Mr. Reed is discussing with Provost Hume and the Office of Human Resources the consequences for not taking the training, as it has been clearly communicated that the training is mandatory.

A conflict of interest training program is ready to be rolled out for the approximately 1,500 designated officials who have to file annual reports with the Fair Political Practices Commission. On May 8, 2007, all persons were registered for the course. A conflict of interest for researchers training program was recently announced to approximately 15,000 people. The Office of Audit will track the completion of both courses and report completion stages to The Regents.

Sexual harassment training is mandated by State law and must be conducted on a two-year cycle. To date, 90 percent of required supervisors have taken the course. In order to meet compliance with State law, efforts will need to be redoubled to train the approximately 4,000 of those who have not taken the course before the next two-year cycle begins. Consequences will have to be devised for those who are reluctant to take the course.

Mr. Reed acknowledged the efforts of the academic business officers, approximately 75 percent of whom have taken the ethics course, in comparison with approximately 42 percent completion for the system as a whole.

The meeting adjourned at 9:00 a.m.

Attest:

Secretary and Chief of Staff