The Regents of the University of California

COMMITTEE ON COMPLIANCE AND AUDIT
July 14, 2009

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

Members present:	Regents Bernal, Ruiz, Stovitz, Varner, and Zettel; Advisory member Croughan; Expert Financial Advisor Schneider and Expert Compliance Advisor Guyton
In attendance:	President Yudof, Secretary and Chief of Staff Griffiths, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Executive Vice President Taylor, Vice President Broome, and Recording Secretary Johns

The meeting convened at 3:20 p.m. with Committee Chair Ruiz presiding.

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

Upon motion duly made and seconded, the minutes of the meetings of March 4 and March 18, 2009 were approved.

2. **ANNUAL REPORT ON INTERNAL AUDIT PLAN 2009-10**

The Chief Compliance and Audit Officer recommended that the Committee on Compliance and Audit approve the Annual Report on Internal Audit Plan 2009-10.

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Chief Compliance and Audit Officer Vacca introduced Matthew Hicks, the systemwide Audit Manager for internal audit.

Mr. Hicks briefly outlined the annual audit process. There are internal audit teams at all UC locations – the ten campuses, Lawrence Berkeley National Laboratory, and the Office of the President. The internal audit directors at the locations report to the chancellors, the Laboratory Director, and Ms. Vacca. The annual audit process is managed by the internal audit directors at the locations, with guidance provided by the Office of Ethics, Compliance, and Audit Services (ECAS). This guidance includes planning guidelines, standard report formats, and explanation of any new changes in the process. Each location has its own audit plans, and ECAS coordinates systemwide audits. The locations are responsible for carrying out these audits using a standard methodology. ECAS then consolidates the results of these systemwide audits and reports on them.

The annual audit process begins with an assessment that identifies high-risk areas to be audited throughout the year. This is performed at all UC locations with ECAS guidance. ECAS provides risk management tools, including rating criteria, to ensure the consistency of the risk assessment process throughout UC.

As part of this process, the locations collect data, using surveys, management interviews, and data analysis. These data are gathered in a "scorecard" or "audit universe," a listing of all areas to be audited. The data are submitted to ECAS for review and consolidation. The results of this risk assessment become the basis of the annual audit plan.

The goal of the audit plan is to target high-risk areas. The plan, created by all the UC locations, is made up of three types of projects: audits, advisory projects – which are proactive consulting work to assist management with risk mitigation and business operations – and investigations, which examine evidence to determine if improper activity has taken place.

At the campus level, audit plans are subject to local review by chancellors and campus audit committees. Following local review, the plans are sent to ECAS for consolidation. The audit plan is finalized and presented to the Committee for approval. The progress of the audit plan is monitored quarterly. At the end of the year, the results are compared to the audit plan.

Ms. Vacca indicated a list of systemwide audits that will be reported to the Committee and a listing of campus audit plans. If there are significant findings, these will be presented to the Committee, as well as status reports on the plan document and on management corrective actions. She pointed out information on internal audit metrics, such as the number of FTEs dedicated to internal audit.

Ms. Vacca noted that the proposed internal audit plan was generated before certain budget impacts were identified which resulted in budget measures to be presented for approval to the Regents later at that meeting. She reported that she had met with the internal auditors to discuss the implications of furloughs and salary reductions and possible changes, by quarter, to the plan. She requested that the plan remain intact, with the flexibility to return to the Committee each quarter to identify audits which may have to be renegotiated due to furloughs and salary reductions.

In response to a question asked by Expert Compliance Advisor Guyton, Ms. Vacca confirmed that the projected timing listed next to the individual audits was the projected timing for completion of those audits.

Regent Zettel asked whether, if the plan came back for review and items had to be eliminated due to furloughs, lower-risk items would be dropped. Ms. Vacca responded in the affirmative. She explained that the plan is risk-based and attempts to cover a broad spectrum of risk, but that due to resource allocations, the University is compelled to focus on higher risk. ECAS would monitor basic controls through its advisory and other services. She cautioned that, in an environment of reduced budgets, salaries, and personnel time, controls can disappear. Items that were classified as low- and medium-risk previous to development of the plan might now become high-risk. This would have to be examined on a quarterly basis.

Committee Chair Ruiz expressed concern that there was no planned audit of the athletics program at UC Berkeley. Ms. Vacca acknowledged that athletics programs are a risk area at UC Berkeley and on other campuses. All risk areas were considered in development of the plan, and decisions had to be made on the basis of available resources. She emphasized that, outside the internal audit program, monitoring occurs on a regular basis through the risk management process and that ECAS is now relying on all the compliance elements to serve as eyes and ears. It would be especially important now to leverage available resources.

Committee Chair Ruiz expressed the hope that, in the new budget environment, the audit program would examine new ways of doing business at the Office of the President and the campuses, find better processes, and find and standardize best practices. He encouraged Ms. Vacca to pursue this with assistance from the Committee.

Ms. Vacca noted that, since his appointment as manager, Mr. Hicks has begun to leverage communication among the locations on internal audit operations. There will be opportunities for improvement in the future. The new staffing models are now becoming more familiar, and Ms. Vacca anticipated future discussions on ensuring coverage of key elements of the audit plan, and on measures to be taken on the campus and systemwide levels.

Expert Financial Advisor Schneider asked to what extent the external auditor PricewaterhouseCoopers (PwC) relies on systemwide audit areas in the plan. PwC representative Joan Murphy responded that PwC does not rely directly on UC's internal audit to carry out its own external audit. PwC examines the internal audit plan to identify and take advantage of complementary features.

Faculty Representative Croughan noted one planned systemwide audit area, federal stimulus package funds, and observed that these funds have an onerous compliance requirement for leading universities, a requirement which UC might not be able to meet. In the list of systemwide audit areas, the projected timing for this audit is the third quarter. Federal stimulus funding for some activities requires reporting within 30 to 60 days. Ms. Croughan asked if the audit could be ongoing and expressed concern that a third-quarter audit would come too late. Deputy Compliance Officer Hilliard explained that some monitoring in this area would be provided by the compliance program rather than by internal audit; the audit program would become involved at a later point.

In response to a question asked by Regent Zettel, Ms. Vacca and Mr. Hicks clarified the meaning of certain acronyms used in the plan. Ms. Vacca stated that she would provide the meanings of other acronyms.

Committee Chair Ruiz suggested that it would be helpful to include a glossary of acronyms used in the report.

Upon motion duly made and seconded, the Committee approved the Chief Compliance and Audit Officer's recommendation.

3. **ETHICS AND COMPLIANCE PROGRAM ACTIVITY REPORT**

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Chief Compliance and Audit Officer Vacca informed the Committee that an annual report on ethics and compliance, like the annual report on internal audit, would be provided at a later meeting.

Deputy Compliance Officer Hilliard explained that metrics are being made an integral part of the ethics and compliance reporting system. The system makes use of the seven elements of an effective compliance program, as promoted by the Federal Sentencing Guidelines. She outlined some of the major elements of the ethics and compliance program, and noted that major risks have changed over the course of the year. Conflict of interest is an important issue; there has been Congressional scrutiny in this area regarding UC's medical and other research programs.

Ms. Hilliard pointed out that education and training programs include areas other than sexual harassment prevention training, such as job risk training. The ethics and compliance program is aiming to provide educational tools for the campuses to use as they see fit, rather than mandating specific programs, unless these are required by law.

Ms. Hilliard recalled that there have been concerns about completion of the sexual harassment prevention training. On June 15, the systemwide completion rate was 84 percent. On that day, July 14, it was 86 percent systemwide. She acknowledged the efforts of the campuses, the Office of the President, and Lawrence Berkeley National Laboratory in organizing lists and title codes, performing the training, and demonstrating to employees that this training was needed. The goal is still 100 percent completion, and notable progress is being made. Another notable effort this year was live training with a theater group, which has been well received.

Regent Zettel asked if the training would be performed every two years. Ms. Hilliard responded in the affirmative. She explained that the different locations have different due dates, and that the University is now in the second year of a two-year cycle.

Committee Chair Ruiz asked how often compliance programs reach every UC employee. Ms. Hilliard explained that the sexual harassment prevention training only concerns supervisors. ECAS has developed code of conduct and compliance training, and these programs are available. Compliance programs work through the hierarchy on campuses and attempt to leverage existing programs.

Committee Chair Ruiz asked what percentage of UC employees are reached by compliance programs. Ms. Hilliard responded that about 50,000 employees have received sexual harassment prevention training. Ms. Vacca estimated that 70 to 75 percent of employees are aware of compliance efforts in their area. An important challenge to reaching UC employees with compliance programs is that the various areas of the University are isolated from one another. Ms. Hilliard added that the University provides access to web-based training in specific areas, such as research conflicts and export control.

Committee Chair Ruiz stated that the more employees reached by compliance programs, the better. He asked how one can measure a successful compliance program. As an example, he suggested that fewer lawsuits might be an indicator of success. Ms. Hilliard suggested that ECAS could conduct surveys and that more detail would be provided in future reports.

Faculty Representative Croughan recalled that an accounting was done a year-and-a-half previously which showed that faculty spent about 30 to 40 hours annually on compliance training programs on topics such as the Health Insurance Portability and Accountability Act (HIPAA), sexual harassment prevention, and effort reporting.

Regent Zettel asked about how widespread HIPAA and privacy training was, if it was implemented throughout the system or only in the medical schools and centers. Ms. Hilliard reported that HIPAA privacy training was first performed only in the medical schools and centers. ECAS has been developing privacy training for the campuses. This training would be more fundamental than the program that already exists at the medical centers. Ms. Vacca added that the University has hired a systemwide privacy officer to consolidate efforts in this area.

Regent Zettel recalled that UC has experienced a number of privacy and security breaches in the past. She asked if the University's technology is robust enough to prevent such events in the future. Ms. Vacca noted that Chief Information Officer Ernst would be addressing this topic in his presentation later in the meeting. She observed that UC is still challenged in the area of technology. PricewaterhouseCoopers has been helping the University to develop a more proactive approach. The University's information technology programs are performing the best job they can with the available resources. A more proactive approach is now being taken.

Committee Chair Ruiz stated that this is a significant problem and that the University lacks funding for the necessary controls to address the situation. The necessary structural basis is also lacking because each campus is independent. He emphasized the importance of the compliance program.

Regent Zettel observed that one-on-one training is important, since security breaches do not necessarily involve sophisticated information technology and can occur when material is thrown in a trash can.

4. **ETHICS AND COMPLIANCE PLAN**

The Chief Compliance and Audit Officer recommended that the Committee on Compliance and Audit approve the Ethics and Compliance Services Annual Plan for fiscal year 2009-10.

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Deputy Compliance Officer Hilliard explained that this is the first annual plan for Ethics and Compliance services. It takes into account specific compliance areas identified by the University, industry higher education compliance risks, and federal and State regulatory requirements. Four areas of risk have been identified for focus during the year: data security and privacy, American Recovery and Reinvestment Act (ARRA) reporting and the requirements of the Health Information Technology for Economic and Clinical Health (HITECH) Act, conflicts of interest, and research compliance and effort reporting.

Ms. Hilliard then discussed a chart listing priority areas for the ethics and compliance program work plan for the year, aggregated by the seven elements of an effective compliance program, with time frames for completion. She presented another chart which she described as a scorecard the program will use to check its progress and will present to the Committee. It will work with the campuses to mitigate risk and will report on these efforts.

Chief Compliance and Audit Officer Vacca noted that the annual plan was developed before the budget impact became known. It will be a dynamic plan, and the Committee will be updated regarding completion of plan goals or the need to make adjustments as new risk areas arise.

Regent Varner praised the plan and asked about the cost of the plan as currently structured. Ms. Vacca estimated the budget to be approximately $2 million to $2.5 million.

Regent Varner emphasized the importance of compliance and the need to be mindful of budget constraints. If the budget were insufficient, it would be necessary to prioritize functions. Ms. Hilliard recalled that the ethics and compliance program leverages work done on the campuses by campus compliance committees.

Regent Stovitz referred to the four major risks identified in the plan and asked if there was concern about compliance with federal, State, and local laboratory safety rules. He referred to publicity surrounding an event at UCLA. Ms. Hilliard noted that the compliance program works with Chief Risk Officer Crickette and with the campus compliance committees and their Environmental Health and Safety groups. Campuses have been asked to identify their most vulnerable areas. Beyond the four major areas of risk, there are campus-specific risks that have been identified and other performance indicators which will be examined. The compliance program also collaborates with

Human Resources, which has a quality and compliance function. As an example, she described this process of collaboration and leveraging in the work being done to address ARRA compliance.

Upon motion duly made and seconded, the Committee approved the Chief Compliance and Audit Officer's recommendation.

5. **STRATEGIC INFORMATION TECHNOLOGY PLAN FOR THE UNIVERSITY OF CALIFORNIA**

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Chief Information Officer Ernst recalled that at the March meeting there was discussion of the need for a UC-wide strategic plan for information technology and a request that he develop an outline and timeline for such a plan. Mr. Ernst presented an outline of a draft process and timeline. The steps included in the outline have been tested and are known to be effective in strategic planning and in information technology planning.

These steps include thorough documentation of the current state of affairs, development of a vision for the future, assumptions and principles for the planning process, initiatives to close gaps, priorities and a business plan, and a finalized draft. The plan must be vetted throughout the University to ensure adequate and appropriate input.

Mr. Ernst emphasized that this is a strategic plan for the UC system as a whole. There are existing campus information technology plans concerning local initiatives. A strategic plan for the system would concern those initiatives that could best be done together for the benefit of the campuses and the system. The University is in a good position, because two documents have already been developed. One is the Information Technology Guidance Committee report of January 2008, which examined the strategic importance of information technology to the mission of the University and suggested areas of focus. The second document is the Building Administrative Efficiency report of October 2008, produced by campus representatives. It outlines a set of highest-priority initiatives that the University should undertake. These are either technology initiatives to improve business processes and efficiency, or initiatives related to administrative functions where technology plays a major role.

The existence of these documents reduces the amount of time needed for developing a draft strategic plan. Mr. Ernst projected that six months would be needed to develop a draft document, followed by two to three months for systemwide review before approval and beginning of implementation. He noted that several obviously important initiatives recommended in the Building Administrative Efficiency report are already being implemented, without waiting for development of the strategic plan. The plan would be beneficial during a difficult economic period by indicating which initiatives should or should not be undertaken.

In response to a question asked by Committee Chair Ruiz, Mr. Ernst stated that the proposed draft process has not yet been started.

Committee Chair Ruiz requested that the Committee be informed about the status of the strategic plan and urged action as soon as possible. Chief Compliance and Audit Officer Vacca suggested that Mr. Ernst could identify current systemwide activities and common themes in a strategic fashion for the Committee. Mr. Ernst stated that he would provide this information.

Regent Zettel asked at what point there would be a cost estimate for potential projects. Mr. Ernst responded that the planning process will not be complete until the costs of the initiatives have been determined. Cost will be one factor in the choice of which initiatives to undertake and thus part of the planning process.

Faculty Representative Croughan pointed out that many efforts are already under way in data warehousing, in server capacity for faculty research, and in developing a systemwide payroll system. These are three significant initiatives. Ms. Croughan suggested that the Committee might receive the impression, based on the material provided, that priority areas were still being identified, when in fact they have been identified and work has moved forward.

Mr. Ernst stated that, if desired, he could make a full presentation to the Committee about activities now being undertaken based on the recommendations of the Information Technology Guidance Committee report and the Building Administrative Efficiency report. This would show progress in a number of areas. However, although work is progressing in these areas, this does not mean that the University has a strategic information technology plan. Committee Chair Ruiz stated that such a presentation would be helpful.

Vice President Broome reported that an initial meeting of the sponsor group took place the previous week to begin the payroll project. The University has an old payroll system. Because of the size and decentralization of the University, it will be difficult to move to a new system. A group of University controllers has been developing a plan. The University is now in the process of preparing a Request for Information for consultants to help document processes in place at all locations. When that is accomplished, there will be a gap analysis comparing current UC practices to best practices. This will provide the basis for a needs analysis, to determine what kind of system the University needs. It will not be easy to achieve agreement systemwide on implementing consistent processes. At this point it has not been decided whether the University will outsource the project, build its own system, or consider an "off-the-shelf" system. This process has been carefully thought through, and Ms. Broome stated that she would be happy to update the Committee as it proceeds. The project has secured seed funding to hire a full-time project director and a consultant. Implementation of a new system will be a significant cost to the University.

Executive Vice President Taylor noted that he has encouraged President Yudof to see the new payroll system as a capital expenditure on a scale that might require financing through external markets to ensure full implementation on an appropriate schedule and at the right level of accuracy. Mr. Taylor anticipated that, under the leadership of Ms. Broome and Mr. Ernst, the new system could save money and would make financial sense. Implementing a modern system would be a major investment.

Regent Varner expressed concern that there be a realistic assessment of the value of a consolidated system. Some campus systems are more advanced than others. Consolidation should be undertaken for realistic potential savings, and efforts to fix the system should be systemwide. Ms. Broome responded that the new system will be implemented systemwide. Technically, the University has one payroll system, but in fact different versions of one payroll system are being used on the campuses. The University needs one version and one system. The problem is not a technical problem, but lies in the processes surrounding those systems. A more disciplined, defined, consistent process is needed.

Regent Zettel suggested that outsourcing the payroll system might be cost-effective in difficult economic times. Mr. Taylor stated that every option is being considered.

Committee Chair Ruiz commended Mr. Ernst for his work on this plan. Ms. Vacca confirmed that a plan document will be presented to the Committee.

Faculty Representative Croughan conveyed a request from the Academic Senate and President Yudof that there be fewer consulting agreements and more inside work and that Requests for Information be issued internally as well. Faculty and staff who are paid to do work for other organizations could do this work for the University. She emphasized that faculty are familiar with the University's operations and are aware of relevant issues.

Ms. Broome responded that a Request for Information has been posted. Anyone with the capabilities to perform this work is invited to present those capabilities. There will then be a Request for Proposals.

6. INFORMATION TECHNOLOGY ITEMS FROM PRICEWATERHOUSECOOPERS REGENTS' MANAGEMENT LETTER FOR YEAR ENDED JUNE 30, 2008

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Chief Information Officer Ernst discussed management responses to recommendations from PricewaterhouseCoopers (PwC) regarding information technology. Two such items were presented in the external auditors' annual report in November 2008. One was a finding that access rights lists, granting access to systems based on individuals' authority and responsibility, are not always kept up to date. The recommendation was that there be formal periodic reviews of the users on those lists. Mr. Ernst reported that he completed a review of this issue in May. All campuses have completed implementation and are in compliance, conducting periodic reviews.

The second item concerns individuals with authorized access to sensitive databases which contain medical records or other personal information. The recommendation was for regular assessments of when individuals access data and what they do with those data. This activity was being recorded, but it was not reviewed regularly. The campuses are now in compliance and are monitoring and reviewing this activity.

In response to a question asked by Committee Chair Ruiz, PwC representative Joan Murphy stated that PwC is satisfied with the management responses. These two recommendations had been made in the 2007 management letter. PwC saw progress being made during the 2007-08 year and was now following up.

7. **SUMMARY OF RESULTS OF THE UNIVERSITY'S 2008 A-133 AUDIT**

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Vice President Broome explained that this extensive and very detailed audit was completed in March.

PricewaterhouseCoopers (PwC) representative Joan Murphy outlined the contents of the A-133 audit. It includes an audit of financial statements as prescribed by the Office of Management and Budget. There is also an audit of the University's compliance with federal award requirements. A supplemental schedule is attached; this is a schedule of expenditures of federal awards for the entire University for fiscal year 2008.

Ms. Murphy emphasized that PwC performed the audit of financial statements in accordance with government auditing standards. The opinion issued by PwC in its Annual Report states that this audit is performed in accordance with generally accepted auditing standards. In the A-133 audit, government auditing standards are required because of the level of federal awards UC receives. Total federal award expenditures received by the University in 2008 were $3.3 billion. The Office of Management and Budget defines categories of "major programs." From the auditors' perspective, there are two such "major programs" for the University: student financial aid and research and development. Although the University receives thousands of awards for research and development, they are considered collectively as part of one program. Similarly, the multiple types of student financial aid are viewed collectively as one program. PwC tested both programs in fiscal year 2008. The total expenditures for research and development were $2.8 billion, the greatest part of the $3.3 billion in federal award expenditures. Student financial aid expenditures were approximately $200 million.

PwC issued an unqualified opinion on the University's compliance with requirements applicable to its major federal awards programs. No material weaknesses in internal control were identified as a result of this audit. No material noncompliance with federal award requirements was reported. The A-133 report requires that any findings or exceptions that could result in questioned costs in excess of $10,000 must be reported. This is a low threshold. As a hypothetical example, Ms. Murphy stated that one could find a $5 exception in the audit for the University. While not required to project an error, an auditor might reason that, on a $2.8 billion base, $5 could easily exceed a $10,000 threshold, given sampling and error projection. Findings at a low dollar amount in the report are in response to requirements.

The audit findings fell into five categories. The first concerned untimely cost transfers, a situation that arises when an expenditure has been charged to one grant or award and is then transferred to a different award or project. There are federal requirements and University policy on timeliness. According to UC policy, the transfer must occur within 120 days of when the cost was incurred. The second category was late returns of Title IV financial aid funds. There are many compliance requirements surrounding student financial aid. When a student receives financial aid and then withdraws from the University or changes status, sometimes some of that aid must be repaid to the federal government within given deadlines. There were cases in which the funds had been returned, but not on time. The third category was late reporting of student status changes, information which is given to the Department of Education. The fourth category was late reporting of federal cash transactions. The last category was charges assigned to grants outside of the grant period.

The finding regarding untimely cost transfers was the most significant of the audit findings. This has been a recurring audit finding at multiple campuses for the last four years. While this did not rise to the level of a significant deficiency or material weakness, it is an issue that needs to be addressed.

Ms. Broome noted that untimely cost transfers have been an ongoing challenge. While the exception rate has decreased from 31 percent in 2005 to 14 percent in 2008, this is still not acceptable. The 120 days allowed to make a cost transfer is an ample amount of time. PwC has assisted the University in identifying best practices in this area. Some universities have set a strict rule, not allowing any transfers past the deadline. Ms. Broome reported that she has discussed this with Vice President Beckwith and the vice chancellors for research. A letter has been issued from the vice chancellors for research and campus controllers stipulating that if cost transfers are not made within 120 days, they will not be allowable under the grant. In certain unusual circumstances, exceptions may be made. The University has made a significant effort on this issue. Ms. Broome emphasized that UC needs to be strict, citing the rigid rules governing some federal funding. She noted that the A-133 report is issued in March, leaving only three months to make corrections in that fiscal year.

Ms. Murphy returned to the student financial aid findings, which concerned the timeliness of financial aid refunds and late reporting of student status changes. There was no misuse of funds and no funds that were not returned.

Faculty Representative Croughan asked if the late reporting was by students or by the University. Ms. Murphy responded that it is by the University. She explained how this lag might occur. A student communicates withdrawal to a department; this is then communicated to the admissions office, and then to the financial aid office, which reports status changes to the government. Sometimes students simply disappear and stop attending. There is guidance in the federal requirements in determining the last date of a student's attendance. Ineffective communication among departments often accounts for this late reporting. Ms. Broome commented on efforts to streamline communication.

Ms. Murphy continued with an observation of the need for greater effort to ensure that federal cash transactions are reported in a timely manner. Campuses have been taking action on this matter. The requirement is that transactions be reported within 15 days after the end of the quarter. In one or two cases, reporting was 60 days late.

Committee Chair Ruiz asked about a possible financial impact on the University from not being in compliance, such as charges or penalties. Ms. Murphy responded that there are not charges or penalties, but that there could be, as with any noncompliance. She stated that she has never seen the federal government take action on these types of noncompliance. Ms. Croughan countered that there have been cases when the federal government has frozen funds for a faculty investigator because financial invoices were not submitted correctly or on time. Ms. Murphy concurred that this risk exists. Funding for a particular award can be withheld, but not all funding for the University. Different federal agencies view compliance requirements differently; some might take serious action on noncompliance, withholding funding until requirements are met.

In response to a question asked by Committee Chair Ruiz, Ms. Broome confirmed that the University is taking action to ensure compliance, especially regarding cost transfers, which are the most serious concern. Action on other concerns, such as the need for better communication, is being taken by local compliance units. She recalled that this audit is granular in its focus. The findings might comprise two incidents among tens of thousands of transactions.

Ms. Murphy then turned to a finding on period of availability. This finding concerned a unique circumstance on one campus with a newly-formed department which was inexperienced in oversight of federal awards. The department incurred costs outside of the grant period and charged those costs to the grant. The campus internal audit unit discovered this. The department immediately made changes and enlisted the assistance of another department to oversee the administration of federal awards. The $31,000 in questioned costs were reversed immediately. Ms. Murphy described this as an incident of inexperience. There are many individuals at the various UC locations who are skilled in oversight of federal awards; the University should take advantage of this.

Ms. Croughan observed that, when payroll-related cost transfers are not reported in a timely manner, the wrong data are entered in the effort reporting system. The effort reporting system is required of faculty in order to receive federal funds and it is a UC compliance requirement. These incorrect data have an important repercussion, generating more work for faculty, who have to recertify reports repeatedly until the payroll data are corrected. There is a significant ripple effect.

8. **RISK SERVICES UPDATE**

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Chief Risk Officer Crickette began her presentation by noting that the activities of the Office of Risk Services are grouped in four areas: mission continuity planning, safety and security, enterprise risk management, and the risk management and financing program. She first discussed the risk management and financing program, which has performed well. It has allowed the University to refund $37 million in 2007-08 for the insurance program from funds collected from the campuses and medical centers. Ms. Crickette reported that another $37 million was returned the previous week. The University has outperformed actuarial projections, which are based on losses over a four-year period and on the loss control and loss prevention activities being implemented.

From the collected funds, the Office of Risk Services is also able to fund the Be Smart About Safety program, $15 million annually to prevent incidents leading to workers' compensation claims. The program has been expanded by another $5 million for the area of general liability.

Ms. Crickette then discussed the cost of risk, the cost for the entire program, including insurance purchased, litigated and non-litigated claims that are retained, administrative costs, the Environmental Health and Safety budget for the campuses, and the Be Smart About Safety program. In 2003-04, the University spent $18.56 per $1,000 of the operating budget. This expenditure has been reduced to $13.31 in 2009-10. At the same time, coverage has been expanded to purchase insurance for new areas such as security. The program has moved from being a traditional claims program to an enterprise risk management information system. Ms. Crickette emphasized that program services are not shrinking. The program does not merely process claims or purchase insurance; in the last five years, it has been proactively investing money in loss prevention.

A significant area of progress is the reduction in workers' compensation injuries. Strategic programs funded through the Be Smart About Safety program have helped reduce the number of injuries to workers. From fiscal year 2008 to fiscal year 2009, the number of injuries has been reduced from 5,615 to 5,233. There has been a 35 percent reduction from fiscal year 2004.

Ms. Crickette read a quote about the Be Smart About Safety program from UC Berkeley Associate Vice Chancellor, Health and Human Services Lustig: "The changes made to the systemwide workers' compensation program and the development of the Be Smart About Safety program have enhanced our local initiatives and efforts towards reducing employee injuries and associated costs. As a result, the Berkeley campus is pleased to realize a rebate for a second consecutive year and, in fact, a third year." She noted that she receives feedback from across the UC system and expressed pride in the success of the Be Smart About Safety program.

Ms. Crickette referred to workers' compensation legislation reforms in California and noted that these reforms do not account for most of the savings at the University. Entities which made no changes and continued business as usual did not experience savings after the reforms. In addition, the law has been eroded over the last four years. The University is faring well compared to other public and private entities; UC's loss rate per $100 of payroll is down 2.5 percent. The loss rate for other employers is up 7.6 percent. She attributed this success to the Be Smart About Safety program.

The severity of losses is driven by medical costs and by changes in State statutes. Ms. Crickette predicted that these statutes will not become more favorable for the University. Therefore, the Office of Risk Services will focus on frequency of losses, on preventing losses in very practical ways, by providing personal protective equipment to workers and engineering better work equipment, such as lift equipment. These are practical programs that benefit the University.

While the University is self-insured, it purchases a significant amount of insurance, transferring risk to the insurance industry. UC receives favorable rates due its investment in loss prevention and control; it is perceived as a good risk. By self-insuring at appropriate amounts and with appropriate deductibles, the University saves $105 million annually over the cost of outside insurance.

Ms. Crickette then enumerated some current challenges. There has been a steady increase in frequency and severity in the general liability program, including auto, premises liability, employment practices, and property losses. The Be Smart About Safety program has been expanded to include these areas, and the campuses and medical centers are developing strategic plans to address them. Professional liability at the medical centers has remained relatively flat. A six percent prescription program has been put in place whereby the medical centers are reimbursed for six percent of their insurance costs if they implement strategic loss prevention programs.

The University now requires that all locations complete a retrospective review for any loss over $50,000, whether litigated or not, even if there has been no settlement payment. These reviews are facilitated by risk managers and bring together subject matter experts and the UC personnel responsible for the department where the risk or loss occurred, to develop risk mitigation plans which must be executed.

Ms. Crickette then discussed the move from traditional and progressive risk management to strategic risk management. This is the work of the Enterprise Risk Management (ERM) program, which began in December 2004. The ERM program aims to teach employees across the UC system how to better manage and monitor risk and to develop risk management plans. It is necessary to provide employees with timely and accurate information about risk.

An ERM Panel has been formed with representatives from the Office of the President, the campuses, and the medical centers. Campuses have developed and shared tools for risk assessment and risk plans. These range from low- to high-technology tools, such as the Enterprise Risk Management Information System (ERMIS).

ERM is a best practice. Most universities and colleges have implemented or are implementing an ERM program. ERM is also of interest to rating agencies. This year, for the first time, Standard & Poor's is including a rating on company ERM in its ratings of financial institutions. Standard & Poor's is also examining ERM at non-financial institutions. The University can expect more scrutiny of how it manages risk and of its ERM program.

ERM helps the University reduce the cost of risk. Based on knowledge of the University's claims and litigation, Ms. Crickette reported that, at one location, if the University had conducted a simple exercise with one of the ERM tools, it could have avoided a cost of $18 million and safeguarded its reputation. She discussed this issue with the responsible chief executive officer at the location. The location now has a chief risk officer and a compliance and ERM committee. Before any major contracts are signed, they are reviewed by the chief risk officer, campus counsel, internal audit, compliance, and other experts to ensure that all risks have been considered: compliance, operational, financial, reputational, and strategic risk.

Ms. Crickette then discussed ERMIS. She provided its website address and enumerated some ERM activities which will be automated using this system. Statement on Auditing Standards (SAS) 112 financial control reporting has been largely a manual, paper-based process; it will now be automated and performed more efficiently and with greater transparency. The chief medical officers are working with the Office of Risk Services to develop key performance and leading indicators. These will be shared among the medical centers to measure performance. Retrospective reviews by risk managers will also be automated.

ERMIS includes a dashboard reporting feature. The earlier claims system provided data on the number of vehicle accidents or employee injuries. Dashboard reporting allows one to see, on a monthly basis, the number of auto accidents relative to the fleet, or the number of general liability losses relative to the gross square footage of the campus. This feature includes 12 key performance indicators. Dashboard reporting enables strategic deployment of resources. It will allow vice chancellors for administration, Environmental Health and Safety directors, and risk managers to identify the top departments and top causes of losses that are driving costs and to make effective funding allocations.

In response to a question asked by President Yudof, Ms. Crickette responded that all locations are participating in the Be Smart About Safety program. All but one location are participating in the ERM program, but she anticipated that this one location would become more proactive in ERM.

Vice President Broome praised Ms. Crickette for her work and pointed out that, on all investments made in the University's Risk Services program, the return on investment has been from 10 to 200 percent. All investments have produced a return.

Committee Chair Ruiz concurred with Ms. Broome. He emphasized that there has been a significant return on investments, reduction in the number of reportable accidents, and reduction in costs. He praised Ms. Crickette for her dedication to her work.

9. **INTERNAL AUDIT SERVICES, IRVINE CAMPUS**

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Chief Compliance and Audit Officer Vacca informed the Committee that the director of the internal audit program at UC Irvine, Bent Nielsen, was unable to participate in the meeting that day.

Regent Zettel asked if the Irvine campus has an ethics committee. Ms. Vacca responded that every campus has an ethics and compliance committee. The medical centers have compliance committees as well.

President Yudof stated that the Committee has made good progress. He announced that there is now an audit committee within the Office of the President. Its purpose is not to conduct audits or to provide opinions on compliance matters, but to ensure that campuses have appropriate personnel and processes in place and respond promptly to audit exceptions or compliance issues. Its work is supplementary to the work of the Committee on Compliance and Audit, which has broader powers. He noted that he has had discussions with Faculty Representative Croughan on faculty participation in sexual harassment prevention training.

Committee Chair Ruiz thanked President Yudof for his support and involvement.

The meeting adjourned at 5:00 p.m.

Attest:

Secretary and Chief of Staff