

The Regents of the University of California

COMMITTEE ON COMPLIANCE AND AUDIT

July 12, 2011

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

Members Present: Regents Makarechian, Mireles, Pelliccioni, Ruiz, and Zettel; Advisory member Simmons; Expert Financial Advisor Schneider and Expert Compliance Advisor Guyton

In attendance: Faculty Representative Anderson, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Provost Pitts, Chief Financial Officer Taylor, Vice President Sakaki, Chancellor Block, and Recording Secretary Johns

The meeting convened at 1:15 p.m. with Committee Chair Zettel presiding.

1. **PUBLIC COMMENT**

There were no speakers wishing to address the Committee.

2. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of May 5, 2011 were approved.

Committee Chair Zettel, Chief Compliance and Audit Officer Vacca, and Chief Financial Officer Taylor praised Regent Ruiz for the leadership and direction he provided during his term as Chair of the Committee, from which the University has benefited.

3. **APPROVAL OF A CHANGE TO THE EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2011**

The President recommended that the scope of the external audit plan be modified to remove the expanded procedures at the Lawrence Berkeley National Laboratory (LBNL) for the year ended June 30, 2011. With the approval of this recommendation, the scope of the external audit work performed at LBNL by the University's external auditors will include the procedures required for the auditors to issue an opinion on the University's consolidated financial statements.

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

Chief Financial Officer Taylor briefly introduced the item, which would modify the scope of the external audit plan to remove the expanded procedures at the Lawrence Berkeley National Laboratory that were added by the Regents in 2004 to identify high-risk areas. Committee Chair Zettel observed that this measure would help to avoid redundancy and create efficiency in the external audit plan.

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

4. **ANNUAL REPORT ON INTERNAL AUDIT PLAN 2011-12**

The Senior Vice President – Chief Compliance and Audit Officer recommended that the Committee on Compliance and Audit approve the Annual Report on Internal Audit Plan 2011-12.

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

Chief Compliance and Audit Officer Vacca noted that the Office of Ethics, Compliance and Audit Services was seeking to improve audit procedures in the areas of executive compensation, chancellors' expenses, and compensated outside professional activities. It might consider changing the rotation of these audits. The Office might recommend changes in the plan for systemwide audits at a future meeting.

Systemwide Audit Manager Matthew Hicks pointed out that a systemwide audit of information technology security was being carried out in the current year for the campuses; in the coming year, this area would be audited for the medical centers.

Ms. Vacca indicated that, due to limited resources, a greater percentage of the internal audit program's time would be spent on audits rather than on advisory services.

Regent Makarechian noted that construction was included in the list of key audit risk areas. He asked how and to what extent this area would be audited. Ms. Vacca responded that this year, each campus would identify a key construction project. The Office of Ethics, Compliance and Audit Services would provide criteria to be addressed in these audits; campuses could include additional criteria if they wish. The scope of these audits remains to be determined.

Regent Makarechian suggested that the selection of the campus projects to be audited should be made by the systemwide Office, not by the campuses. Ms. Vacca responded that these audits would not be carried out by the systemwide Office; the Office would develop common systemwide criteria for these audits. She stated that she could provide information on these criteria when they are developed.

Regent Ruiz observed that not all the campuses perform equally well in management of capital budgets. The University needs effective controls and scrutiny to eliminate the possibility of costly errors.

Regent Makarechian emphasized the magnitude of the University's construction contracts and the potential for error. He expressed concern about the possibility of mismanagement and the need for processes to prevent this. Ms. Vacca responded that she would provide information on the scope of the construction audits as that scope is defined. The University would design its audits in line with industry standards and in consultation with key subject matter experts.

Committee Chair Zettel expressed appreciation for the attention being paid to this area in the University's risk assessment.

Regent Pelliccioni asked if all audit areas on a campus are selected by that campus, or if there is a standard of required areas that all campuses must evaluate regularly. Mr. Hicks responded that all campuses conduct audits according to a risk-based plan. Campuses conduct an annual risk assessment, with guidance by the systemwide Office. All campuses use the same methodology. Campuses develop their own risk-based audit plans and are also required to carry out audits mandated systemwide by the Office. Chief Financial Officer Taylor added that the risk-based audit plans are aligned with the enterprise risk management program on the campuses. While internal audit focuses on compliance-related initiatives, the Office of Risk Services designs programs that promote improvements and lower cost and risk.

Committee Chair Zettel noted that travel and entertainment expenses would be part of the audit plan for the year. She asked if there has been a reduction in these expenses. Mr. Taylor responded that he believed these expenses have decreased, but the data were not yet available to confirm this.

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

5. **ETHICS AND COMPLIANCE PROGRAM PLAN FOR 2011-12**

The Senior Vice President – Chief Compliance and Audit Officer recommended that the Committee on Compliance and Audit approve the Ethics and Compliance Program Plan for 2011-12.

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

Deputy Compliance Officer Lynda Hilliard reported that campuses were developing specific plans for the next year. There were six areas of systemwide focus: campus safety and climate, government funds reporting requirements accuracy, data privacy and security, research-related compliance risks, the culture of ethics and compliance, and

health care reform. The campuses would develop specific objectives and performance standards.

Faculty Representative Simmons asked if the University had any estimate of the cost of these compliance efforts. He referred to the presentation of the “campus safety and climate” area of focus in the plan document and expressed misgivings about the combination of the issue of campus climate and problems of intolerance with the general issue of campus safety. Both issues are complex and challenging, and each requires a different approach. Combining the two might result in neglect of one or the other. He believed that the two issues should be addressed separately. Ms. Hilliard responded that the University first wishes to determine if relevant plans are in place on the campuses; from this perspective, there was some basis for categorizing these issues together. This matter would be reexamined when data are received from the campuses.

Referring to Mr. Simmons’ question about the cost of compliance efforts, Ms. Hilliard observed that this is an issue of concern throughout the industry. Compliance efforts do not provide revenue for an organization, but the results of noncompliance can be much more costly. The University’s compliance program tries to identify activities that are compliance-related and that provide value to the organization. The cost of UC compliance efforts has not been measured in dollar amounts. Most compliance staff on the campuses also perform other duties. Chief Compliance and Audit Officer Vacca added that it is difficult to measure the value of a preventative tool. The University can estimate what the cost of a penalty or a catastrophic event, avoided due to training or monitoring, might have been. Prevention does not have a related cost factor.

Regent Pelliccioni stated that it is not unusual that the cost of a compliance program could not be easily quantified; probably no institution could provide such a number. The University is within industry norms in this regard.

Committee Chair Zettel suggested that costs such as fines, litigation, and settlements could be used as an indicator of systems not operating correctly.

Mr. Simmons stated his view that plans do not generate compliance; efforts to create a safe environment must be focused on employees. Measuring compliance with statistics is much easier than an integrated approach focused on employees.

Ms. Hilliard observed that compliance plans and some kind of structure must be in place for progress to be made. When the systemwide compliance effort began, some campuses had no plans in place.

Ms. Vacca noted that the compliance staff are not the only UC employees working on campus climate issues; at the Office of the President, the Office of Student Affairs, and the Office of Risk Services are also focused on safety and climate issues. She expressed agreement with Mr. Simmons that it might be appropriate to separate the issues of campus climate and campus safety.

Regent Ruiz emphasized the importance of student mental health. He recalled that there have been tragic student suicides and urged the compliance program to include this topic in its work plan. Ms. Hilliard responded that it would be possible to include student mental health support in an upcoming review.

Committee Chair Zettel asked about the coverage of leading and newly developed medications by the University's student health insurance. She asked if this matter is considered when the University negotiates contracts with student health insurers. Chief Financial Officer Taylor recalled that the University's student health insurance has been consolidated into the UC Student Health Insurance Program (SHIP). He stated that he would communicate with SHIP administrators about this issue and noted that, under the new SHIP, eight of the campuses have received improved drug formularies.

Regent Makarechian asked if this item would also be covered under a proposal for internally captured insurance. Mr. Taylor responded that this possibility was under consideration.

Regent Pelliccioni referred to the category "government funds reporting requirements accuracy" in the report and expressed concern about the statement that billing and coding at medical centers "may have been included in campus work plans." Ms. Hilliard responded that this area is included in all medical center plans. She clarified that the word "may" was used because the list of areas of focus applied to all campuses, both with and without medical centers. She assured Regent Pelliccioni that individual compliance work plans from the medical centers include billing and coding accuracy as an area of focus, following U.S. Department of Health and Human Services Office of Inspector General guidelines and addressing site-specific issues. The medical centers do not have the option of not covering this topic. Ms. Vacca added that there would be a new billing and coding accuracy effort this year at the campus student health centers.

Committee Chair Zettel observed that it is not unusual for the audit process to detect errors in medical billing and coding. An ongoing corrective process is necessary.

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

6. CHIEF FINANCIAL OFFICER DIVISION AIM REPORT: ACTIONABLE INFORMATION FOR MANAGERS

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

Chief Financial Officer Taylor began the discussion by noting the difficulty of benchmarking administrative performance at institutions of higher education. The Actionable Information for Managers (AIM) Report is an attempt to identify benchmarks in five areas for the campuses and medical centers, in order to allow more effective

targeting of resources and to encourage best practices. The five areas are procurement, accounting, risk management, capital markets, and banking and treasury services.

Regent Makarechian asked how this information was collected. Mr. Taylor responded that information collection was now automated. Four or five months previously, when the process began, much information was still entered by hand. The Office of Risk Services had established an automated system for data collection and data preparation for the risk management program. This system has now been expanded to other areas, a step which was inexpensive. Information is gathered in a database. Mr. Taylor stated that the data will be shared quarterly with the campuses and the Regents.

Regent Ruiz asked how these data would be used and what the benefit to the University would be. Mr. Taylor responded that information could be targeted to campuses to demonstrate where there is room for improvement. Campus managers would be able to compare their performance to other campuses. For the Office of the President, it can help to determine what resources should be applied to improve performance.

Regent Ruiz asked how overall improvement in campus performance would be measured. Mr. Taylor responded that there were dollar figures associated with each area, such as the percentage of strategically sourced contracts negotiated through the Department of Procurement Services. The University strives to attain 80 percent strategic sourcing on these contracts. He noted that currently, the medical centers were ahead of the campuses in achieving value and lower costs through group purchasing. The data show that some campuses could improve in this regard; the UCSF Medical Center performs very well, while the UCSF campus could do much better. The efforts of the Department of Procurement Services can be more finely tuned to negotiate contracts that will save the University money. The University will be able to compare past and current spending on equipment in dollar amounts. The Office of Risk Services calculates the cost of risk per \$1,000 annually. This cost had decreased in the past four to five years. Associate Vice President and Systemwide Controller Peggy Arrivas stated that the data in this report would allow campuses to share best practices and would help them to deal with administrative cuts. Chief Risk Officer Grace Crickette noted that data provided to the campuses was more detailed than the charts in the background materials to the item. Campus managers could identify which departments were raising the level of risk. As one example, the system allows quick identification of departments with the highest rate of employee injuries. Another data category, percentage of employees ready to retire, is useful for human resources departments as an indicator of where succession planning is necessary. Overall, these data help campuses to deploy resources where they are most needed.

Regent Makarechian praised the report and asked what incentive there would be for campus managers to examine these data. Mr. Taylor responded that there was no strong incentive other than the fact that if more money is saved, more jobs are protected and more money is available to support teaching and research. One motivation would be the wish to do good for the University, and another motivation would be the wish to avoid the embarrassment of being a laggard in the comparison among campuses.

Faculty Representative Anderson noted that UC Berkeley had a relatively low compliance rate for use of the Connexus travel program and group purchasing. He noted that data like these are sometimes attributed to unwillingness on the part of faculty to change their behavior. Mr. Taylor responded that he did not believe that faculty attitudes accounted for the Berkeley data, but that the implementation of programs like Connexus has not been a priority for the Berkeley campus in the past. Implementation was now taking place, and the campus has hired a full-time staff member to manage the travel savings program.

Mr. Anderson noted that one data category was the percentage of direct deposit payments for disbursements and asked if direct deposit payments were considered more desirable than paper checks. Mr. Taylor responded in the affirmative. He stated his view that UC spends too much money on issuing paper checks. Savings gained through wider use of the direct deposit payment method would be substantial.

Expert Financial Advisor Schneider suggested that direct deposit payments could be made a requirement for all new employees. Mr. Taylor responded that this is a contentious issue in collective bargaining. He expressed the hope that the percentage of direct deposit payments at UC would increase in the future.

Committee Chair Zettel concluded that the report showed that there were savings to be derived from all UC processes.

7. **FOLLOW-UP INFORMATION ON INTERNATIONAL ACTIVITIES**

Committee Chair Zettel noted that Regent Ruiz had requested information on this topic at an earlier meeting.

Chief Compliance and Audit Officer Vacca recalled that a presentation by PricewaterhouseCoopers at a previous meeting had drawn attention to important current topics for institutions of higher education; one of these topics was international activities. The Office of Ethics, Compliance and Audit Services was asked to provide information on existing UC controls surrounding international activities.

Many different departments and units in the UC system are engaged in international activities, both academic and administrative. There are several areas which could be improved. The University's guidance to campuses on international activities is outdated and needs to be updated. Campuses need tools and information sources in order to pursue international operations. Ms. Vacca informed the Committee that a small work group was addressing this matter and, based on the President's recommendations, would disseminate information to the campuses. She noted that the Office of Risk Services has a tracking system for UC students abroad.

General Counsel Robinson observed that collecting information on all the University's international activities would take some time. The Office of Risk Services provides travel insurance for UC affiliates. There was still much work to be done in the area of UC

controls for international activities, and there would be further reporting at future meetings.

Ms. Vacca expressed her view that UC travel programs are well managed. The work group would focus primarily on entrepreneurial activities and aspects of doing business in other countries.

Chief Financial Officer Taylor reported that the Office of Risk Services is engaged in standardizing the University's international contracts and assembling a contract inventory. International contracts are created at the campus level and are reviewed by campus risk managers for purposes of insurance and indemnification. If two different campuses are operating in the same country, they should not use radically different approaches in their contract negotiations.

Chief Risk Officer Grace Crickette noted that the University has a website with travel and field safety information, deployed by all the campuses. UC academic and other personnel can register trips they take on UC business. The website provides information on the legal, compliance, human resource, and safety and security aspects of UC operations abroad. The University monitors all its foreign operations. When campuses develop a new operation in a foreign country, they arrange for insurance with the campus risk manager, who reports to the Office of Risk Services.

Committee Chair Zettel asked if the University works with the Centers for Disease Control regarding disease outbreaks. Ms. Crickette responded in the affirmative. In addition, the University works with an intelligence agency and a worldwide medical agency. UC academics or personnel who register for travel abroad receive email or cell phone updates with alerts regarding disease, political unrest, or natural disasters. Mr. Taylor added that UC's insurance service is capable of providing information and payment quickly to remote areas to avoid delays in medical service.

Ms. Vacca emphasized the importance of planning for events before they occur and reiterated that the University would develop a package of information and guidelines for international activities.

Regent Makarechian asked if the University arranges locations where UC students can go if telecommunications in a country are disrupted. Ms. Crickette responded that recently, during political unrest in Cairo, Egypt, when computer systems were not functioning, the University succeeded in communicating by cell phone, and was even able to reach a group in the desert on an archeological expedition. UC students and personnel are informed of the location of the U.S. embassy in the country they are visiting. In Egypt recently, UC made contact with its affiliates before events reached a crisis level. She drew attention to the fact that every situation and country are different; the University uses various means to address these situations. It has generally been able to establish contact with its affiliates abroad when necessary.

Regent Ruiz asked about the next report to the Committee on this topic and when it would be presented. Ms. Vacca responded that the work group was now focused on updating the University's current guidance documents. She anticipated that, if campuses are in agreement with the new guidance materials to be developed, the administrative information for UC international activities would be complete by the end of the current fiscal year.

8. REPORT ON ETHICS AND COMPLIANCE ACTIVITIES

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

Chief Compliance and Audit Officer Vacca noted that an annual report would be provided at the next meeting.

9. REPORT ON INTERNAL AUDIT ACTIVITIES

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

Systemwide Audit Manager Matthew Hicks referred to the materials provided and noted that an annual report on internal audit activities would be presented at the end of the fiscal year.

Chief Compliance and Audit Officer Vacca observed that there has been a significant amount of external audit activity at the University recently, and she anticipated that it would continue. Certain external agencies have received increased funding to identify noncompliance. Some external agency audits of the University have taken up a great deal of UC internal audit staff time. A recent audit by the California Bureau of State Audits lasted 18 months. The National Science Foundation was currently auditing three UC campuses. These audits effectively take resources away from UC's core mission.

Committee Chair Zettel concurred that external audits of UC by government agencies would likely continue.

Regent Ruiz asked how the difficult budget situation would affect the internal audit function. Mr. Taylor recalled one of the comments in the most recent audit by PricewaterhouseCoopers that control staffing has become sparse on some campuses. The University pays close attention to cash management and cash controls. Policies and procedures require employees to implement them. There has been a reduction of administrative staff members who oversee cash controls. There have not been any serious problems, but with fewer staff it is harder to maintain oversight.

General Counsel Robinson anticipated a decline in service levels. For example, in the area of Public Records Act requests, with reduced funding and staffing, it would take longer to respond to internal and external requests.

Regent Ruiz concluded that the risk level within the organization would rise. Ms. Vacca responded that the internal audit program is especially focused on risk in its assessments.

Committee Chair Zettel again thanked Regent Ruiz for his leadership during his term as Chair of the Committee.

The meeting adjourned at 2:25 p.m.

Attest:

Secretary and Chief of Staff