

The Regents of the University of California

COMMITTEE ON COMPLIANCE AND AUDIT

March 19, 2014

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

Members Present: Regents De La Peña, Feingold, Flores, Makarechian, Ruiz, Schultz, and Zettel; Ex officio members Lansing and Varner; Advisory member Gilly; Staff Advisors Barton and Coyne

In attendance: Regents Island, Napolitano, and Sherman, Regents-designate Engelhorn, Leong Clancy, and Saifuddin, Faculty Representative Jacob, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Vice Presidents Andriola, Brown, Duckett, and Sakaki, Chancellors Blumenthal, Desmond-Hellmann, Katehi, Leland, and Yang, and Recording Secretary Johns

The meeting convened at 2:00 p.m. with Committee Chair Zettel presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of January 23, 2014 were approved.

2. APPROVAL OF EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2014

The President of the University recommended that the KPMG external audit plan and fees for the University for the year ending June 30, 2014, as shown in Attachment 1, be approved.

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

Associate Vice President and Systemwide Controller Peggy Arrivas noted that there were no changes in the scope of the external audit plan compared to the previous year.

KPMG representative Mark Thomas explained that, in accordance with generally accepted auditing standards, his firm is required to have certain communications with the Regents prior to the beginning of the audit. These were included with materials provided to the Regents.

Regent Makarechian asked about language referring to materiality. Mr. Thomas responded that in the fall audit report, findings would be identified as “significant deficiencies” or “material weaknesses.” Any matter that reaches this level would be reported in writing.

Regent Makarechian asked for the definition of “significant” in this context. Mr. Thomas responded that a finding would be significant if it could have an impact on any users of the financial statements. KPMG’s determination of materiality is based on industry standards and takes into account the readers or users of the financial statements. He noted that the threshold for determining what is considered “significant” has been lowered since 2008.

Regent Makarechian expressed concern that there is no agreed-upon definition of “significant” in the audit context, while there is a definition of materiality. Ideas of what is “significant” might be different for KPMG, the Regents, or others. Mr. Thomas responded that there was no definition of materiality either, although he acknowledged that there was a history behind the term. He stressed that nothing had changed in the calculation of materiality.

Regent Makarechian requested clarification of KPMG’s statement in the audit plan that it would be responsible for “communicating to the Audit Committee and management in writing all significant deficiencies and material weaknesses.” Mr. Thomas responded that generally accepted auditing standards require that KPMG report to the Regents any findings that fall under the category of significant deficiencies and material weaknesses. While there may not be a specific dollar definition of these terms, the standards are fairly clear. An essential criterion is any possible effect on users of financial statements, such as bondholders or anyone who extends credit to the University.

Regent Makarechian asked if this would entail different audits for different users of the financial statements and reiterated his request for a clear definition of “significant deficiency.” Mr. Thomas responded that he would provide the Committee a clear definition of the auditing terms “significant deficiency” and “material weakness.” Ms. Arrivas observed that the previous external auditor, PricewaterhouseCoopers, used the same two terms. The definition of the terms would be the same as it had been in the past.

Committee Chair Zettel asked if the audit work was progressing according to schedule and if Mr. Thomas was comfortable with the University’s collaboration. Mr. Thomas stated that the work so far had been proceeding very well. KPMG had been meeting with many University stakeholders. Audit test work had begun, and there had been discussions about significant transactions and the implementation of accounting pronouncements that would affect UC financial statements.

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

3. **AMENDMENT OF INTERNAL AUDIT CHARTER**

The Senior Vice President – Chief Compliance and Audit Officer recommended that the Internal Audit Charter be amended as shown in Attachment 2.

[Background material was provided to Regents 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 changes had been made to the amendment of the Internal Audit Charter, based on discussion at the previous meeting.

Regent Makarechian referred to the “Mission” section of the charter, and noted that the word “monitoring” was to be deleted. He suggested that this word be restored, so that this phrase would read: “through communication, monitoring and collaboration.”

Regent Ruiz asked why the “Mission” statement did not mention the UC medical centers. Ms. Vacca responded that this paragraph mentions the chancellors, who have oversight of the medical centers.

Regent Makarechian referred to the “Independence and Reporting Structure” section of the charter. He asked about the definition of the word “significant” in the phrases “any credible allegations of significant wrongdoing” and “any other credible allegations that if true could cause significant harm or damage to the reputation of the University.” Ms. Vacca proposed that the following language be added in a footnote to define the term “significant”: “Significant” as defined by generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA). The International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors also refer to “significant risk exposures and control issues...”

Upon motion duly made and seconded, the Committee approved the Senior Vice President – Chief Compliance and Audit Officer’s recommendation as amended and voted to present it to the Board.

4. **TRENDS IN INFORMATION TECHNOLOGY RISK**

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

Protiviti representative Anthony Samer discussed information technology risks in higher education, based on a survey of multiple industries. He outlined a number of key areas.

Information security is a top priority, and many institutions face the challenge of keeping their systems up to date. Protection against identity theft is also an important concern. Personal data at UC and other universities are not centralized and controlled in one place.

In information technology governance, UC takes a decentralized approach. This may create additional challenges in coordinating decisions and ensuring standard costs and improvements systemwide.

Major systems implementation is another concern for higher education institutions, in particular, ensuring that implementation is on time and on budget. For institutions with multiple locations, the move toward shared services is challenging, requiring changes in organizational culture.

Cloud computing presents challenges to organizations. Services and systems can be purchased easily, which can encourage decentralized purchasing of information technology services and undermine attempts to standardize and make strategic purchases. The use of personal accounts and services to do business on behalf of the institution also creates risk; this should be avoided. Data ownership may come into question if it is not clear where systems or data are being held or if there is a contested relationship with the cloud computing provider.

Social media are a unique challenge for higher education institutions, given the wish to balance control and risk mitigation with freedom of speech and openness. It is difficult for an institution to measure the effectiveness of its social media strategy and to monitor the messages conveyed by social media about the institution. There are still unclear areas about appropriate use of social media in employee recruitment.

Emerging technologies, particularly the use of mobile devices, present a challenge for organizations seeking to ensure a secure environment and secure data.

Data sources are now being used in new and interesting ways. Control over how these “big data” are used, and the question of whether they are being used appropriately, is a concern for higher education institutions.

Finally, Mr. Samer remarked on disaster recovery measures, and the ability of institutions to support information technology operations in the event of a major physical disaster.

Systemwide Audit Director Matthew Hicks outlined actions UC is taking to ensure that its auditors are well versed regarding the risks discussed by Mr. Samer, and to ensure that the UC audit program has the necessary skill sets. There are dedicated information technology auditors at each location; systemwide there are 31 certified information system auditors. In addition to external training, UC periodically offers audit training in specific information technology subject matter areas. UC is comparing information technology skill sets among its locations to identify gaps in skill sets in specialized risk areas in order to provide targeted training to address those gaps. UC auditors have access to information technology audit tools, such as vulnerability scanning tools and data analytics software. UC is facilitating the sharing of information technology expertise among the locations in audit planning and risk mitigation. The University is also developing resource sharing programs among locations for information technology auditors, including use of remote technical assistance. UC is also considering the

possibility of deploying staff from one location to assist with audits at other locations, or hiring audit staff to serve at more than one location, for locations that are geographically close to each other. Finally, UC also makes use of external resources for audits that require specific subject matter expertise not found at the University.

Chief Compliance and Audit Officer Vacca concluded that UC was leveraging its resources in audit and seeking to expand its knowledge base.

Staff Advisor Coyne encouraged the University's audit program to be mindful of staffing in this field. The ability to recruit and retain staff in this area was of crucial importance.

Regent Makarechian noted that some Management Corrective Actions (MCAs) concern the need to update information technology systems. He asked about the source of funding to address these needs, and if there were ways to expedite this funding, given the enormous potential liability in areas like identity theft or disaster recovery. Ms. Vacca suggested that Chancellor Katchi address this question. Chancellor Katchi responded that funding for these information technology needs comes from the campus' operating budget. There are not funds in reserve for these needs. She recalled that four or five years earlier, the Davis campus had to take a number of actions regarding information technology that were costly. Actions had been delayed because funds were not available. Plans were being developed to provide these funds. When the initial actions were identified for information technology at the UC Davis Medical School campus in Sacramento, the cost would have been in the tens of millions of dollars. The campus has gained greater perspective on which actions need to be taken immediately; for these, funds are made available. Other actions become part of a longer-term funding strategy.

Regent Makarechian asked if critical MCAs were receiving priority attention. Ms. Vacca responded in the affirmative. She acknowledged that some information technology issues were taking more time to resolve because funding was not immediately available; these issues were being addressed in phases. There is ongoing monitoring. Commonly, information technology issues take longer than a few years to resolve, mostly due to funding.

Regent Makarechian asked about escalation of urgent matters. Ms. Vacca responded that urgent matters are discussed with chancellors. If agreement is not reached, the matter is brought to the President. If the President feels it is necessary, it may be brought to the Committee.

Committee Chair Zettel asked how well the UC system was implementing best practices to address these emerging risks. Mr. Samer responded that this is a never-ending task. The University clearly spends a great deal of time and attention to these matters. Across higher education institutions, UC is probably average in its preparation and adequacy of controls. The funding situation and the unique mission and environment of UC contribute to this status. If UC were compared to all industries in this regard, it would fall in the lower end of the range. Protiviti has seen a great deal of improvement at UC.

Committee Chair Zettel observed that UC has identified centralization as an information technology goal, exemplified by the UCPath project. She asked if greater centralization of information technology systems would result in greater security. Vice President and Chief Information Officer Andriola responded that there were varied practices across the campuses. One of UC's strategies is knowledge sharing. The higher education environment is additionally challenging, since people from outside UC's enterprise are regularly involved in UC business. Information security practices at Lawrence Berkeley National Laboratory and the medical centers can be leveraged and shared with other locations. UCPath is a business transformation project for greater efficiency; centralization is only one of many approaches. UC must do a better job of sharing knowledge across locations. Mr. Andriola stated his view that raising UC's standard through adoption of best practices is the best strategy.

5. **UNIVERSITY OF CALIFORNIA INFORMATION TECHNOLOGY UPDATE AND DIRECTION**

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

Vice President and Chief Information Officer Andriola began the discussion by recalling that he had now completed the first five months in his position. Digital technology has become a part of daily life, and this is especially true for UC's students, for whom mobile computing and social media are second nature. Mr. Andriola had visited the campuses and medical centers to gain an understanding of the University's information technology capabilities, assets, and location-specific goals and challenges. UC has good teams in place and a culture of local innovation. Its challenges are like those at peer universities across the U.S., but due to the University's size, its complex system is costly to maintain. UC locations report struggles with workload demands, talent management, and aging infrastructure. UC chief information officers state that in absence of effective governance, systemwide initiatives add excessive burdens to already heavy workloads. Mr. Andriola stated that the University was meeting basic needs at the local level, but falling short of achieving the potential of information technology to help reform UC's cost structure and support its mission. Local innovations are rarely applied at other sites. The previous year, UC's information technology leadership council had created a framework for collaboration. Mr. Andriola reported that in spite of good intentions, the collaboration model had not changed behavior or built momentum toward achieving strategic value. Too often, UC locations solve the same problem multiple times, in multiple ways, using different technologies.

The University should increase commitment to collaboration. Collaboration should be articulated through a strong set of principles that consider local and systemwide criteria. UC should develop mechanisms that develop a sense of information technology community to encourage a culture of sharing and adopting of best practices. The University has more than 6,500 information technology professionals and is a leader in many emerging areas, strong in its individual locations, but complex as a collective entity. An analysis of spending for information technology products and services revealed

significant opportunities to leverage the University's size, scale, and purchasing power. Current governance had led to use of innumerable technologies across UC for the same purpose. A systemwide working group had been formed to review the areas of greatest spending, and had already achieved \$5 million in savings through procurement practices typical for any large organization. Mr. Andriola noted that there is significant duplication of investment at UC, leading to costs above peer benchmarks. Efforts to increase efficiency should be based on industry best practices and available blueprints. UC information technology must work closely with the academic and administrative leadership to discuss information technology investments and their role in advancing the University's mission. Each location reported challenges in recruitment and retention of staff. These challenges are more daunting if each location faces the marketplace alone. Working as a system, the University could do more to retain and develop its information technology workforce for the future. Mr. Andriola concluded by remarking that UC's information technology leaders need to redouble their efforts and contribute more to the University.

President Napolitano observed that the University's future success would depend in part on how it managed its information technology infrastructure.

Staff Advisor Barton concurred with Mr. Andriola's statement that campuses faced challenges in recruiting and retaining information technology professionals in a competitive marketplace, especially in California. She asked how the University might accomplish this on a systemwide basis. Mr. Andriola responded that private sector organizations are faced with the same difficulties. He noted that some employees may not see a next career step for themselves at a given location and begin to look outside UC. The University should manage the development of its information technology professionals and position them for opportunities within the UC system, so that they do not feel the need to look to the outside marketplace. The motivation for an employee to leave may not be salary, but lack of opportunity for growth.

Committee Chair Zettel asked what savings might be achieved if the University moved toward a more collaborative model. Mr. Andriola responded that an estimate at this time would be premature. He expressed optimism about the talent and capacity for innovation within UC; sharing of this talent and these innovations would result in savings. He had had discussions with the campuses about management, in particular about reducing costs in infrastructure and operational aspects of information technology so that funds can be reinvested. The information technology industry can provide roadmaps and blueprints for this process.

Committee Chair Zettel asked if there were incentives for campuses to move in this direction. Mr. Andriola responded that UC must have such incentives. He was sharing ideas for such incentives with campus leadership.

6. INTERNAL AUDIT ACTIVITIES REPORT

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

Systemwide Audit Director Matthew Hicks presented a brief update on internal audit activities over the past quarter. The number of investigative reports was greater than at the same time the previous year. He pointed out that this increase was not necessarily due to an increase in fraudulent behavior or improper governmental activity. In an organization as large and complex as UC, investigation activity can fluctuate for a variety of reasons, including increased awareness of the whistleblower hotline. Internal audit activity had continued to focus on financial management and cash management. There had been a net decrease in the number of open Management Corrective Actions (MCAs). In January, an All Auditors Forum for UC internal audit staff had been a successful event, focused on strategic initiatives and effective communication skills.

Mr. Hicks reported that the results of a State audit of UCLA and UCSF Medical Centers had been positive overall, with one recommendation for increased transparency of funding support transfers from the health system to the campuses. Another State audit, on sexual harassment at public universities, was still in progress. The auditors anticipated releasing a draft report that summer. The National Science Foundation (NSF) recently issued a draft report on its review of UCLA. In the recruitment for a new internal audit director at UCSF, the University had recently extended an offer to a candidate.

Committee Chair Zettel asked if the University had seen the draft NSF report. Chief Compliance and Audit Officer Vacca responded that this draft had been distributed first for management response. More about this matter would be reported later.

Committee Chair Zettel requested clarification of the State's recommendation for the UCLA and UCSF Medical Centers. Ms. Vacca recalled that monies are transferred from the medical centers to the medical schools, to support the schools. The State auditors felt that this process could be more transparent and use a more formalized method. Ms. Vacca praised the State Auditor's Office for its professionalism in this audit and the UC medical centers for meeting expectations and demonstrating the valuable service that they offer.

Committee Chair Zettel stated her view that the public may not be sufficiently aware of the outstanding work done by UC's medical centers, a point which should be communicated by the results of this audit. Ms. Vacca concurred that this audit demonstrated that UC's mission is being accomplished.

7. ETHICS AND COMPLIANCE ACTIVITIES REPORT

[Background material was provided to Regents 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 briefly discussed the University's compliance with the Violence Against Women Act and work to be done in this area.

Deputy Compliance Officer David Lane outlined the ongoing effort to implement the systemwide privacy and information security initiative. Campuses have identified their privacy officers and the University would be providing training for these officers. UC Berkeley had instituted a campus privacy committee to examine information security from a technological standpoint and in the context of freedom of speech, academic freedom, and research.

Ms. Vacca noted that some campuses were experiencing the need for a full-time compliance position and greater funding for compliance. Mr. Lane noted that all campuses were engaged in meeting recommendations presented in various recent reports regarding sexual harassment, sexual violence prevention, diversity, and inclusion.

Ms. Vacca observed that the success of a compliance or prevention program may not be easy to measure in dollar amounts. She briefly noted that the Ethics and Compliance Services Office had worked to reduce the number of active Presidential delegations of authority from 1,278 to 110.

The meeting adjourned at 3:15 p.m.

Attest:

Secretary and Chief of Staff

Deliverables

Financial Statement Audit Opinions

- **University of California Systemwide Financial Statements**
- **Each of the five University Medical Centers**
- **University of California Retirement System**
- **University Captive Insurance Company**

Additional Reports

- **Single Audit of Federal Funds expended in accordance with OMB Circular A-133**
- **Report on the University of California Cash Contributions to the Retirement System**
- **Agreed-upon procedures related to the Mortgage Origination Loan Program**
- **Agreed-upon procedures related to NCAA requirements (6 campuses)**

Internal Controls

- **Letter to Regents on internal control deficiencies that are considered Significant Deficiencies and/or Material Weaknesses**

Required Communications

- **Audit Plan**
- **Audit results and required communications relating to the conduct of the audit**

Fees

UC Entity/Report	2014 Fees
UC Consolidated Entity	\$ 1,370,250
Single Audit (A-133 Audit)	393,900
Medical Center Audits	1,096,470
University of California Retirement System Audits	152,300
NCAA Agreed-Upon Procedures	85,925
Mortgage Origination Program Agreed-Upon Procedures	9,280
UC Captive Insurance Company Audit	28,600
UC Retirement Plan's Schedule of Cash Contributions	4,910
UCLA Medical Center Bond Opinion	2,455
Consolidated Form 990T Review	15,200
Total	\$ 3,159,290

Additions shown by underscoring; deletions shown by strikethrough

Proposed Revisions to Internal Audit Charter

Internal Audit Charter

(Charter Revised May 2011, Vision and Mission Sections Revised March 2014)

Policy Statement

It is the policy of the University of California to maintain an independent and objective internal audit function to provide the Regents, President, and campus Chancellors with information and assurance on the governance, risk management and internal control processes of the University. Further, it is the policy of the University to provide the resources necessary to enable Internal Audit to achieve its mission and discharge its responsibilities under its Charter. Internal Audit is established by the Regents, and its responsibilities are defined by The Regents' Committee on Compliance and Audit as part of their oversight function.

Vision

UC Internal Audit will be a universally recognized knowledgeable, collaborative and trusted resource on governance, risk management and control.

Mission

The mission of the University of California (UC) internal audit ~~program~~ (IA) is to provide the Regents, President, ~~and~~ campus Chancellors, and Laboratory Director independent and objective assurance and consulting services designed to add value and to improve operations. ~~It does~~ We do this by assessing through communication and monitoring collaboration with management to assist the campus community in the discharge of their oversight, management, and operating responsibilities. ~~Internal audit~~ IA brings a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

Authority

IA functions under the policies established by the Regents of the University of California and by University management under delegated authority.

IA is authorized to have full, free and unrestricted access to information including records, computer files, property, and personnel of the University in accordance with the authority granted by approval of this charter and applicable federal and state statutes. Except where limited by law, the work of IA is unrestricted. IA is free to review and evaluate all policies, procedures, and practices for any University activity, program, or function.

In performing the audit function, IA has no direct responsibility for, nor authority over any of the activities reviewed. The internal audit review and approval process does not in any way relieve other persons in the organization of the responsibilities assigned to them.

Independence and Reporting Structure

To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, internal auditors will be independent of the activities they audit. This independence is based primarily upon organizational status and objectivity and is required by external industry standards.

The Senior Vice President - Chief Compliance and Audit Officer (CCAO) has a direct, independent line reporting relationship to both The Regents, communicating directly with the Board of Regents and the Regents Committee on Compliance and Audit regarding all elements of meaningful compliance and audit programs, including providing annual reports on compliance with applicable laws, regulations, and University policies. The CCAO shall also consult with and advise the President on compliance and audit activities. and the President. For administrative logistics, the CCAO has a dotted reporting line to the Executive Vice President—Business Operations. The CCAO has established an active channel of communication with the Chair of The Regents' Committee on Compliance and Audit, as well as with campus executive managements, on audit matters. The CCAO has direct access to the President and The Regents' Committee on Compliance and Audit. In addition, the CCAO serves as a participating member on all campus compliance oversight/audit committees.

Campus/Laboratory Internal Audit Directors (IADs) report administratively to the Chancellor/Laboratory Director (or designate) and directly to The Regents' Committee on Compliance and Audit through the CCAO. IADs have direct access to the CCAO and to the President or The Regents' Committee on Compliance and Audit as circumstances warrant.

Campus IADs will report periodically to the campus compliance oversight/audit committees on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work; the status of the annual audit plan, and the sufficiency of audit resources. The local audit functions will coordinate with and provide oversight of other control and monitoring functions involved in governance such as risk management, compliance, security, legal, ethics, environmental health & safety, external audit, etc.

IADs may take directly to the respective Chancellor or Laboratory Director, the CCAO, the President, or The Regents matters that they believe to be of sufficient magnitude and importance. IADs shall take directly to the CCAO who shall report to the President and The Regents' Committee on Compliance and Audit Chair, any credible allegations of significant wrongdoing (including any wrongdoing for personal financial gain) by or about a Chancellor, Executive Vice Chancellor or Vice President, or any other credible allegations that if true could cause significant harm or damage to the reputation of the University.

If Chancellors/Laboratory Director, when pursuant to their re-delegation authority, designate a position to whom the IAD shall report, that position shall be at least at the Vice Chancellor/Deputy Laboratory Director level and the Chancellor/Laboratory Director shall retain responsibility for: approval of the annual audit plan; approval of local audit committee/work group charter; and shall meet with the IAD at least annually to review the state of the internal audit function and the state of internal controls locally. When reporting

responsibility is re-delegated, IADs also have direct access to Chancellors/Laboratory Directors as circumstances warrant.

Scope of Work

The scope of IA work is to determine whether UC's network of risk management, control, and governance processes, as designed and represented by management at all levels, is adequate and functioning in a manner to ensure:

- Risk management processes are effective and significant risks are appropriately identified and managed.
- Ethics and values are promoted within the organization.
- Financial and operational information is accurate, reliable, and timely.
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's risk management and control processes.
- Significant legislative or regulatory compliance issues impacting the organization are recognized and addressed properly.
- Effective organizational performance management and accountability is fostered.
- Coordination of activities and communication of information among the various governance groups occurs as needed.
- The potential occurrence of fraud is evaluated and fraud risk is managed.
- Information technology governance supports UC strategies and objectives.

Opportunities for improving management control, quality and effectiveness of services, and the organization's image identified during audits are communicated by IA to the appropriate levels of management.

Nature of Assurance and Consulting Services

IA performs three types of projects:

Audits – are assurance services defined as examinations of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples include financial, performance, compliance, systems security and due diligence engagements.

Consulting Services – the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include reviews, recommendations (advice), facilitation, and training.

Investigations – are independent evaluations of allegations generally focused on improper governmental activities including misuse of university resources, fraud, financial irregularities, significant control weaknesses and unethical behavior or actions.

Mandatory Guidance

IA serves the University in a manner that is consistent with the standards established by the SVP/CCAO and acts in accordance with University policies and *UC Standards for Ethical Conduct*. At a minimum, it complies with relevant professional standards, and the Institute of Internal Auditors' mandatory guidance including the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

Certain Personnel Matters

Action to appoint, demote or dismiss the SVP/CCAO requires the approval of The Regents. Action to appoint an IAD requires the concurrence of the SVP/CCAO. Action to demote or dismiss an IAD requires the concurrence of the President and Chair of the Compliance and Audit Committee, upon the recommendation of the SVP/CCAO.