

The Regents of the University of California

**COMPLIANCE AND AUDIT COMMITTEE**

May 17, 2017

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

Members Present: Regents Brody, De La Peña, Elliott, Makarechian, Pérez, Sherman, and Zettel; Advisory member Chalfant; Chancellor Gillman; Staff Advisor Valdry

In attendance: Assistant Secretary Lyall, General Counsel Robinson, Interim Chief Compliance and Audit Officer Lohse, and Recording Secretary Johns

The meeting convened at 1:25 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 March 15, 2017 were approved.

**2. DRAFT INTERNAL AUDIT PLAN FOR 2017-18**

[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.]

Interim Chief Compliance and Audit Officer Lohse explained that the draft internal audit plan for 2017-18 was a consolidation of audit and advisory projects identified by audit offices at the campuses, the Office of the President, and Lawrence Berkeley National Laboratory, based on a risk assessment process. Mr. Lohse anticipated that the finalized internal audit plan would be presented for approval at the July meeting. He underscored three important objectives of the plan: improving the effectiveness of campus governance, risk management, and control processes; assisting campus leadership in the discharge of their oversight, management, and operating responsibilities; and addressing the University's significant financial, operational and compliance risks.

Mr. Lohse briefly outlined the risk assessment process, a consistent methodology for prioritizing and rating risk. These activities generally include processes to solicit information from internal sources, primarily through interviews and surveys, as well as taking external sources into consideration, such as industry trends and regulatory developments. During this process, there are regular discussions among the campus internal audit directors, who share information on emerging risks.

Systemwide Deputy Audit Officer Matthew Hicks outlined some key risk areas addressed in the draft audit plan. The plan included a mix of projects to provide ongoing assurance

in expected risk areas, such as construction, research compliance, and financial aid, as well as in emerging risk areas, such as research partnerships, cloud computing, and telemedicine. Over the past few years, the internal audit program had increased its efforts to align elements of the audit plan with the strategic priorities of the institution, such as cyber security and implementation of UCPATH and other significant administrative systems. Mr. Hicks noted that the newly formed systemwide cyber security audit team had now been in place for the first year. There was a robust plan to address cyber security risk, including vulnerability assessments, penetration testing, a systemwide review of cyber security incident response, and projects addressing critical infrastructure systems and medical device security. The audit program was also focusing on priorities for UC Health, such as evaluating contractual arrangements with affiliates and identifying opportunities to improve revenue management processes and financial performance. In the arena of diversity, equity, and inclusion, projects at the campus level would evaluate recruitment practices.

Committee Chair Zettel asked if the University, in considering its cyber security audit plan, was taking into account the WannaCry ransomware attack, a wide-ranging international cyber attack that had taken place the previous week. Mr. Hicks responded that the cyber security audit team had discussed this matter and determined that the University's current focus was correct, with vulnerability assessments and penetration testing to ensure that UC systems are appropriately updated with security patches.

Committee Chair Zettel asked about the auditing of UC Health system affiliations. Mr. Hicks responded that the audit plan included projects to address the risk in contractual arrangements, such as the information technology security risk in the sharing of electronic medical records, and ensuring that roles and responsibilities identified in contracts are implemented as described.

Regent Makarechian requested information on completion of Management Corrective Actions and asked whether the numbers of outstanding MCAs were decreasing. Committee Chair Zettel observed that these numbers had decreased significantly.

Regent Makarechian asked about the number of audits of the University by outside entities, not including the audit by the Regents' external auditor. Mr. Hicks responded that there are almost 100 such audits annually. The Office of Ethics, Compliance and Audit Services serves in a coordinating role for these external audits, facilitating the collection of information.

Regent Makarechian asked if there were a compilation of all these outside audits and the recommendations resulting from them. Mr. Hicks responded that these recommendations are addressed at the campus and department level, and discussed by the local campus audit committee. Regent Makarechian requested information on the status of corrective actions resulting from these audits. Mr. Hicks responded that he would see if it was possible to compile this information.

Regent De La Peña asked about how the University audits its student health centers. Mr. Hicks responded that campus audit directors may identify specific risks associated with student health centers and include these in an audit plan. In the current year, at the systemwide level, the Office of Ethics, Compliance and Audit Services had facilitated a self-assessment process performed by the student health centers, working with an outside consultant, Keeling & Associates.

Chancellor Gillman referred to one of the areas of focus in the draft internal audit plan, innovation and entrepreneurship. Planned activities in this area might include evaluating due diligence processes and associated risks for entrepreneurial investment initiatives, and assessing controls for evaluating potential conflict of interest. He remarked that there has been debate about the appropriate level of authority delegated to the campuses for their entrepreneurial activities. In response to a question by Chancellor Gillman, Mr. Hicks confirmed that the internal audit plan did not include any assumption or implication of an increase in centralized or systemwide overview of the campuses' day-to-day decision-making regarding entrepreneurial and commercialization activities.

Committee Chair Zettel asked if the relative percentages of the plan's allocation of hours to audits, advisory services, and investigations would remain the same as in prior years. Mr. Hicks responded that the campuses had not yet been asked to state their allocation of hours. This information would be available at the July meeting. He anticipated that the allocation would be consistent with prior years.

### 3. **COMPLIANCE RISK ASSESSMENT PROCESS UPDATE**

[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.]

Interim Chief Compliance and Audit Officer Lohse began this discussion by remarking on the strong collaborative relationship between the Office of Ethics, Compliance and Audit Services audit and the Office of Risk Services. This partnership had greatly enhanced the University's risk-sensing capabilities. Systemwide Deputy Compliance Officer David Lane provided a brief risk intelligence overview, beginning with the concept of the "risk universe," including explicit risks and emerging risk intelligence. He outlined the schedule for development of the campuses' compliance plans and the systemwide compliance plan.

UC Merced Associate Chancellor Luanna Putney stated that the Merced campus strives to identify enterprise-wide risk, including reputational, strategic, compliance, financial, and operational risk. She presented a chart illustrating the risk governance structure at UC Merced, its committees and councils, headed by an Executive Committee. Ad hoc committees are formed to address emerging risks. UC Merced wishes to mitigate the most significant risks, examining both real and perceived risks. The campus convenes focus groups and risk workshops with faculty and staff. Data gleaned from these workshops, along with other data from internal and external sources, becomes part of the campus' ethics and compliance plan.

Committee Chair Zettel asked if staff and faculty leadership participate in these risk workshops. Ms. Putney responded in the affirmative, noting that there have been changes from year to year. In the current year, about 47 percent of participants were staff members, while the rest were faculty or executive leaders. Committee Chair Zettel suggested that it might be helpful for the campus to conduct workshops specifically for staff.

Faculty Representative Chalfant noted that there may be a lack of sufficient support or resources for faculty and staff in the area of cyber security. Many faculty and staff are not familiar with encryption processes. He asked if the compliance risk assessment process includes not only identification of risks, but identification of insufficient resources. Ms. Putney responded that participants at UC Merced's risk workshops frequently identified the lack of sufficient staff members to carry out key compliance controls as a significant concern. The campus was addressing these concerns through its workforce planning. Mr. Lohse added that the kind of risk assessment process described by Ms. Putney for UC Merced occurs on all campuses.

Committee Chair Zettel suggested that standardized training modules might be useful for new staff. Ms. Putney responded that UC Merced was enhancing its new employee orientation program, which would be mandatory.

Staff Advisor Valdry noted that certain risk issues might be specific to graduate students, in particular graduate students who work as teaching assistants. He asked if the risk assessment process takes these students into account. Mr. Lane responded that each campus addresses this issue differently. Often, campus vice chancellors of Student Affairs are members of campus compliance committees.

Mr. Valdry asked if students participate on campus compliance committees. Ms. Putney responded that students were not involved in UC Merced's formal risk governance structure. There had been some student participation in focus groups, and students are asked about campus climate and harassment. Mr. Valdry observed that the student perspective is unique and that students may point out risks that faculty and staff are not aware of.

The meeting adjourned at 2:10 p.m.

Attest:

Secretary and Chief of Staff