

The Regents of the University of California

COMPLIANCE AND AUDIT COMMITTEE

November 18, 2020

The Compliance and Audit Committee met on the above date by teleconference meeting conducted in accordance with Paragraph 3 of Governor Newsom's Executive Order N-29-20.

Members Present: Regents Anguiano, Butler, Cohen, Elliott, Estolano, Makarechian, Park, and Sures; Ex officio member Pérez; Advisory member Zaragoza; Chancellors Christ, Gillman, Hawgood, Khosla, and Larive; Staff Advisor Jeffrey; Expert Financial Advisor Schini

In attendance: Regent Drake, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Bustamante, Provost Brown, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President Byington, Executive Vice President and Chief Operating Officer Nava, Chancellor Block, and Recording Secretary Johns

The meeting convened at 9:40 a.m. with Committee Chair Elliott presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of September 16, 2020 were approved, Regents Butler, Cohen, Elliott, Estolano, Makarechian, Park, Pérez, and Sures voting "aye."¹

2. STATE AUDIT OF UNIVERSITY OF CALIFORNIA ADMISSIONS POLICIES AND PRACTICES

[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 Deputy Audit Officer Matthew Hicks reported on the State audit of UC admissions policies and practices. The State Auditor conducted fieldwork for this audit over a period of eight months, from January to August. During this period, the audit team reviewed admissions practices at four UC campuses—UC Berkeley, UCLA, UC Santa Barbara, and UC San Diego. The audit report was released on September 22 and identified 64 admissions decisions that the State Auditor determined to be improperly influenced. In addition, the report contained 12 recommendations to the Office of the President (UCOP) to further strengthen the University's admissions policies and practices. As part of the State Auditor's standard audit follow-up process, the University would be required to report progress in implementing the audit's recommendations at 60 days, six months, one year, and annually thereafter. The 60-day update would be due on November 21.

¹ Roll call vote required by the Bagley-Keene Open Meeting Act [Government Code § 11123(b)(1)(D)] for all meetings held by teleconference.

Provost Brown then discussed management's response to the audit recommendations. Mr. Brown noted that he read the State audit report while being mindful of an instruction from President Drake that lack of integrity could not and would not be tolerated. In this spirit, Mr. Brown stated that he appreciated the State Auditor's report. UCOP immediately formed a working group that has been meeting weekly regarding UC's response to the report. UCOP immediately requested unredacted copies of UC documents from the State Auditor in order to better understand what informed the State Auditor's findings and conclusions, and had received a full set of documents the prior week. Many issues raised by the State Auditor had also been identified in UC's systemwide internal audit of undergraduate admissions, conducted by the Office of Ethics, Compliance and Audit Services (ECAS) the previous year. Campuses had reported and verified full implementation of all ECAS recommendations.

This week, President Drake had distributed a letter to chancellors, asking them to develop additional policies and practices based on the State Auditor's recommendations. UCOP believed that these actions would eliminate the entirety of the types of violations brought to light by the State Auditor. The University was accepting most of the State Auditor's recommendations to safeguard the integrity of its undergraduate admissions processes systemwide. Three of these recommendations required additional scrutiny. The first was a recommendation for UCOP to oversee UC Berkeley's admissions process for the next three years; the second, to remove potentially biasing information from the application information that campuses can access; and the third, to begin conducting regular audits of admissions processes at each undergraduate campus. The University was committed to doing everything possible to prevent any fraudulent activity that interferes with a right and fair admissions process. A thorough and thoughtful review of the documents that UCOP had just received from the State Auditor would help UCOP in that endeavor. Mr. Brown anticipated that there would be more to report on this matter at a future meeting.

Committee Chair Elliott requested clarification regarding the University's concerns about the three recommendations of the State Auditor that were mentioned. Mr. Brown responded that these three recommendations were important and far-reaching. The University wished to ensure that, as it considered information from the State Auditor's point of view, it understood the recommendations and took the correct actions in response. The recommendation that would essentially place UC Berkeley's admissions process under receivership was far-reaching; it would require increased staffing at UCOP, which would be a reversal of the ongoing process of downsizing at UCOP. This action would disconnect UC Berkeley admissions from the campus itself. UC wanted to ensure that, when it embraced a recommendation, this recommendation made sense in the context of the problems that had been identified. The action recommended by the State Auditor might be warranted, but UC might also have other approaches that would solve the problem without such a far-reaching action.

Regent-designate Zaragoza referred to another of the State Auditor's recommendations, which concerned admissions application reader training. Regent-designate Zaragoza believed that the University should carry out more training and that there should be more communication and feedback between trainers and readers. She asked how UC planned to

fulfill this recommendation. Mr. Brown responded that President Drake's letter to the campuses asked that the campuses specify their training processes, document these processes, and evaluate and monitor their consistency. All campuses should have criteria for the required level of consistency. Director of Undergraduate Admissions Han Mi Yoon-Wu added that the campuses had been working to improve their reader training process. The current admissions cycle had recently finished, so that the instructions from President Drake would be implemented for the next cycle. The campuses were cognizant of the need to train readers as well as possible and to monitor readers throughout the process. The readers' work was a high volume of work compressed into a short time frame. There was always room for improvement, and the University hoped to see this improvement in the next cycle.

Regent Makarechian asked about actions the University had already taken in response to the audit. Chief Compliance and Audit Officer Bustamante responded that UC had now received the bulk of the unredacted email messages that had been reviewed by the State Auditor and used in the audit report. While the University was waiting for those documents, it had done what was possible to investigate, analyzing application files, performing email-related searches, and following up on investigations into admissions related to athletics. This process was still in its early stages. UC wished to have time for the analysis of the unredacted emails, which would inform the process. Mr. Bustamante stated that, when there was more information, it would be brought to the Board's attention.

Regent Makarechian asked if there was a timetable to achieve this. Mr. Bustamante responded that ECAS was still reviewing the information received from the State Auditor. ECAS was finalizing reviews of the application files. Some email searches were still being conducted as a follow-up to work done by the State Auditor. The timing would depend on when this information was finalized and ready for ECAS to review.

Regent Makarechian asked about the campuses' role in this process. Mr. Bustamante responded that the athletics-related investigations were being conducted by outside investigators. The admissions issues at UC Berkeley were being investigated by ECAS, with the assistance of subject matter experts.

Regent Makarechian asked if outside investigators had been hired at each campus. Mr. Bustamante responded that these investigators had been engaged only for the athletics-related admissions issues.

Regent Makarechian asked if each campus had a separate investigator. Mr. Bustamante responded that this depended on the campus. At one campus, the issues were identified by the campus before the State Auditor noted them in its report. At that campus, the investigation was already under way and being performed internally. With regard to the other campuses, ECAS was in discussions with them and had shared relevant information so that an outside, independent fact-finder could examine issues and determine appropriate courses of action.

Committee Chair Elliott asked if the University had received all the documents from the State Auditor that it had requested. Mr. Bustamante responded in the affirmative. UC had

received about 100 documents on October 28 and the remaining 1,400 at the end of the past week, on November 13.

Committee Chair Elliott asked Mr. Bustamante if he felt that he had all the information he needed. Mr. Bustamante responded in the affirmative. UC had all the supporting documentation from the State Auditor and this would allow UC to review and evaluate.

Committee Chair Elliott noted that the 60-day report would be due in a few days. He asked if the rather late receipt of this supporting documentation would affect the University's ability to respond adequately. Mr. Bustamante responded that there were a number of items that the University still needed to analyze. This information would obviously be helpful. The timing of when this information was received would affect some of the University's statements regarding the recommendations. ECAS was working quickly to make up for lost time in evaluating the recommendations.

3. **ANNUAL REPORT OF EXTERNAL AUDITORS FOR THE YEAR ENDED JUNE 30, 2020**

[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 Peggy Arrivas introduced Michael Schini, Expert Financial Advisor to the Committee. Mr. Schini had spent a great deal of time assisting the Committee by reviewing UC's work and providing comments. She reported that the University was able to complete its financial statements on time and that the annual audit performed by the University's external auditor, PricewaterhouseCoopers (PwC), went very well.

PwC representative Will Cobb noted that this year was different in that the PwC team carried out its work in a remote setting. PwC had made a significant technology investment over the past several years, and this enabled a satisfactory completion of this audit under challenging circumstances. As indicated in the background materials provided, PwC issued an unqualified or "clean" audit report for the University. PwC also issued unqualified opinions for each of the medical centers and the UC retirement system. PwC reported one significant deficiency in internal controls, related to the third-party retirement system, in the absence of evidence supporting certain key information technology general controls. As indicated in the materials provided by PwC, management reported the underlying circumstances of this item to PwC during the audit planning process. PwC's audit plan was responsive to this control weakness and this enabled PwC to complete the testing of balances and transactions to support the conclusions reached in the audit. PwC appreciated management's efforts to facilitate the audit process this year. PwC received full cooperation from management.

Ms. Arrivas commented that the finding regarding the retirement system had been reported the previous year. The University worked with the vendor to obtain a report on controls. The vendor provided a report covering only three months of the year. UC evaluated the

time frame and the content of this report and concluded that it was not sufficient; therefore, UC was continuing to perform repetitive controls to ensure that retirement plan payments and financial records were accurate. The University would continue to perform these tasks in a repetitive mode until UC was satisfied that the vendor had corrected the weakness that had been identified.

Committee Chair Elliott concluded that audit functions and oversight were working well, with the exception of the issue concerning Redwood, the retirement recordkeeping system. This would need attention.

The meeting adjourned at 10:05 a.m.

Attest:

Secretary and Chief of Staff