The Regents of the University of California

COMMITTEE ON AUDIT
November 18, 2004

The Committee on Audit met on the above date at Covel Commons, Los Angeles campus.

Members present: Regents Blum, Connerly*, Lee, Novack, Ruiz, and Sayles; Advisory member Brunk

In attendance: Regents Anderson, Marcus,* Ornellas*, and Preuss*, Regents-designate Juline and Rominger, Associate Secretary Shaw, University Counsel Thomas, Treasurer Russ, Provost Greenwood*, Senior Vice President Mullinix, Vice President Broome, Chancellors Bishop, Carnesale, Cicerone, Fox*, Tomlinson-Keasey, and Vanderhoef, Executive Vice Chancellor Gray representing Chancellor Birgeneau, University Auditor Reed, and Recording Secretary Bryan

*Entered the meeting following adjournment of the concurrent session of the Special Committee on Regents' Procedures

The meeting convened at 10:30 a.m. with Committee Chair Novack presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of September 22, 2004 were approved.

2. **ANNUAL REPORT OF EXTERNAL AUDITORS FOR THE YEAR ENDED JUNE 30, 2004**

In accordance with the Schedule of Reports, the Annual Report of External Auditors for the Year Ended June 30, 2004 was submitted for discussion.

[The report was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

It was recalled that the objective of The Regents' external auditors in performing the basic University audit is to render an opinion on the financial statements of the University of California. The auditors also report their observations and make recommendations with regard to accounting procedures and controls. In addition, this year the Committee on Audit requested an expanded scope of work at each of the national laboratories.

The report of external auditors PricewaterhouseCoopers LLP on the audit for the year ended June 30, 2004 (Required Communications to the Board of Regents), the reports prepared by PricewaterhouseCoopers LLP on the agreed-upon procedures performed at each of the National Laboratories, and the internal control report to The Regents (Management Letter) containing representative internal control comments by the auditors from the financial statement audit, also were mailed to all Regents in advance of the meeting. The recommendations in the Management Letter may be summarized as follows:

<u>Comment related to an individual campus:</u>
Improve controls over the use of spreadsheets.

<u>Comments related to certain campuses and medical centers:</u>
Improve user access administration.
Consider improving procedures over the recording of unrecorded liabilities.

<u>Universitywide comment:</u>
Improve procedures over the recording of unusual gifts.

Vice President Broome introduced Mr. Mike Schini, the PricewaterhouseCoopers engagement partner, who presented brief remarks concerning the external auditors' Required Communications to the Committee on Audit. He noted that the external auditors perform their audit to opine on fairness of presentation of the financial statements taken as a whole. They also conduct an audit under government auditing standards, which goes beyond typical audit standards, with respect to the spending of federal funds. He recalled that the University was required to make an accounting change during the past year in order to include the campus foundations in the basic financial report. That brought $2.9 billion in assets into the reporting entity. Another new requirement is that sensitive or critical accounting policies be discussed.

Mr. Schini commented that, in the preparation of financial statements, considerable judgment is involved in the establishment of reserves. The auditors concluded that the range of reserves estimates was reasonable. He noted a further new requirement, the quality of accounting policies selected. The auditors had no comment or criticism about the quality of the policies used by the University; however, Mr. Schini noted that there are not many elections available to the University in terms of particular accounting policies. Where there are, the University has picked the more conservative option for reporting. Concerning judgments and accounting estimates inherent in the financial statements, he noted some significant estimates, including self-insurance reserves of $567 million, reserves for bad debts of $222 million, reserves for medical center third-party payor accounts of $218 million, and private investments held of approximately $1 billion.

Mr. Gary Garbrecht, the medical center partner, commented that each of the five medical centers has extensive analysis and documentation to support the reserves it has recorded. All are considered reasonable by the external auditor. He noted, however, that there is uncertainty inherent in setting reserve amounts.

Mr. Schini commented that another requirement is that if, during the audit, the auditors become aware of fraud errors and illegal acts, they must use a formal process to so inform The Regents. He noted that the Committee had been informed about four such instances that are either under investigation or have been resolved.

Mr. Schini noted that the external auditors report both audit adjustments and any unadjusted errors. It is University policy that anything disclosed during the audit and adjusted, with a *de minimus* level of $400,000, must be displayed.

Committee Chair Novack commented that this year, finance personnel at each campus had signed the financial statements.

Regent Ruiz questioned the $222 million in reserves for bad debts. Mr. Schini explained that, considering the volume of the University's activity, it is not an unreasonable number. Much of it relates to the health care enterprise. He did not believe it raised any issues.

Mr. Schini noted that, although the laboratories and hospitals were included in the audit, the majority of the assets and liabilities of the laboratories are reported on by the Department of Energy. The auditors did some expanded audit procedures at each laboratory this year. Also, each hospital receives a stand-alone audit report, which is then consolidated with the University's report.

Regent Lee was concerned that in implementing new Government Auditing Standards, prior year statements must be restated, which he believed implied that something had not been done correctly. Mr. Schini commented that there was a distinction between the term restatement, which implies an error was made, and an accounting change restatement to meet reporting requirements promulgated by outside bodies. Regent Lee emphasized the importance of making that distinction clear in reports.

Committee Chair Novack observed that the laboratory audits are handled in a multi-functional way. This year, some additional auditing was done, at the University's request. The University's internal audit covers some laboratory functions having to do with procedures and some safety issues, but not security issues. He recalled that he and Regent Preuss had requested more detailed reports in future concerning the National Nuclear Security Agency's coverage of security issues.

3. **APPROVAL OF THE UNIVERSITY OF CALIFORNIA FINANCIAL REPORT, 2004**

The President recommended that, with the concurrence of the Committee on Finance, the Committee approve the University of California Financial Report, 2004.

> [The report was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

Vice President Broome recalled that a presentation on the financial report, including the June 30, 2004 audited financial statements for the University of California Retirement Plan, the PERS-VERIP, the Defined Contribution and 403(b) Plan, and the five University of California medical centers, was made to the Committee on Finance at its meeting of November 17. That Committee approved the report. Committee Chair Novack pointed out that the annual report is a final report of management to The Regents.

Committee Chair Novack described the timetable for the audit year, which culminates at the end of October, by which time the Regents have received the annual report from management and the external audit reports. He discussed issues to consider going forward, the first of which was financial reporting during the year. Other than through a compensation committee component of the Committee on Finance and through the hospital financials, the Regents do not know how money is being spent. Slightly less than $3 billion comes from the State, but there is another portion of the $17 billion budget that is not monitored. He suggested that having more information during the year would be helpful with issues such as setting student fees. He also believed there was a need to be able to compare Vice President Hershman's and Vice President Broome's budget reports in order to measure goals against performance. Further, he suggested there may be a role for earlier involvement of the Regents in the financial reporting and audit that could enhance the process. He acknowledged that addressing these issues would come at a cost in both people and dollars.

Regent Blum believed that hearing from the auditors formally more than once a year would probably not be productive. If specific issues generated interest, a special meeting could be held. He did agree, however, that the Committee should have financial updates more often, perhaps quarterly.

Vice President Broome acknowledged the concern about reporting frequency. She pointed out that the University's systems and processes are set up to report once a year, which is standard for universities. She reported that she was in the process of preparing a white paper as to what the barriers would be for closing quarterly. For instance, depreciation is run once a year. Until three years previously, the University did not record depreciation, because it was not part of generally accepted accounting principles for university accounting under governmental standards. She proposed that, in order to have a fact-based discussion of the possibilities, she present the white paper for discussion by the Committees on Audit and Finance. She noted that internal reports for the University as a whole remain at the campus level and are not submitted to the Office of the President. Every campus department receives a spending report monthly. Then the central office of that campus becomes involved in monitoring spending versus budget. The spending reports represent cash: there are no accruals made at that point, only at the end of the year, and it is the responsibility of the department chair and the finance person in that department to monitor the spending to ensure it is in accordance with plan.

Regent Blum believed that, because the financial oversight of the system is the responsibility of The Regents, more information is needed. He suggested that it would be efficient to strengthen the Office of the President's role, particularly with regard to financial reporting.

Regent Lee noted that there were few companies or institutions as complicated as the University. He observed that finding the correct balance between Regental oversight and cost effectiveness would be difficult.

In response to a question by Regent Ruiz, Vice President Broome commented that her white paper is intended to be a basis upon which the Committee could make decisions about the University's financial reporting systems and the role of the Committee. Each campus is in the process of determining what it would cost to accommodate a quarterly change.

Regent Ruiz suggested that the external auditors should advise the Committee about best practices and the Committee's role and responsibility.

Mr. Schini confirmed that the University's reporting cycle is typical for universities, but he acknowledged that, in light of Sarbanes-Oxley, other boards are discussing the necessity of receiving quarterly information and making systems changes. He emphasized that the University's budget is not controlled based on the summation of the quarterly report. He agreed that quarterly reporting was becoming a trend, but he acknowledged that it would not be simple in the University's reporting environment.

In response to an observation by Committee Chair Novack concerning actions taken by the Regents and the results these actions produce, Vice President Broome explained that before the most recent Governmental Accounting Standards Board changes, the University reported by function. Now it is required to report by natural classification. She stressed that she is required to use generally accepted accounting principles. Those who prepare the University's budget are not, and also, they are addressing a different audience. She described the difficulty of trying to track allocations for line items from the budget through to the final statements. In some cases it is almost impossible, given the University's system and method of reporting. She noted further that in some cases staff had been cut by more than 20 percent, notwithstanding that reporting requirements have increased.

Senior Vice President Mullinix noted that the University publishes an enormous amount of detailed information about spending by campus, program, school, and category, that is available at the close of the year.

Regent Blum emphasized the necessity of devising a useful management tool that the Office of the President could have monthly and The Regents could have quarterly in order to make timely decisions and create the ability to generate answers to questions that arise. He believed that the Office of the President should be provided with the staff necessary to implement operational changes where needed, although he acknowledged that for the University to establish the state-of-the-art system envisioned by the Regents, additional money and personnel would be required.

Committee Chair Novack summarized the discussion by observing that the Regents, knowing they have both the responsibility and the authority with respect to a $17 billion budget, need to become more involved in the financial reporting process and to create a more dynamic reporting system. A draft of Vice President Broome's white paper, which will be available in January, will provide the basis for a discussion of these issues. The matter must be analyzed from a cost benefit relationship. Regent Ruiz acknowledged that improving the process would be expensive, but he believed the resulting efficiency would prove to be worthwhile.

Committee Chair Novack requested on behalf of his successor that the Chair of Audit or Finance be drawn into the financial reporting process early. He believed it was important for an incoming chair of the Committee on Audit to know more about the timing of the cycle and when there is a place at least for review or interaction before the documents are final.

Mr. Schini noted that the auditors issued reports on the DOE laboratories. He reported that the Los Alamos and Berkeley laboratories went through transitions during the past year, whereas the Livermore laboratory was in a stable environment. He emphasized that the Los Alamos and Berkeley laboratories made substantial improvement. Items still open are described in the management letters. Senior Vice President Mullinix commended Vice President Broome for establishing a central Office of the President responsibility for resolving the open laboratory issues.

Upon motion duly made and seconded, the Committee approved the President's recommendation.

4. **ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES, 2003-04**

In accordance with the Schedule of Reports, the Annual Report on Internal Audit Activities, 2003-2004 was submitted for discussion.

> [The report was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

Committee Chair Novack recalled that at the July meeting, the Committee was provided with an overview of some major items for 2003-04 internal audit. He introduced University Auditor Reed for a more formal presentation of the report.

Mr. Reed recalled that the annual report presents various summary level and analytical information for the year. Each campus and DOE laboratory internal audit department produced a Location Annual Report on Activities, the objective of which was for each audit department to report to its chancellor and audit committee about the state of the control environment at the local level and the status of its individual audit program, including significant audit results, outstanding management corrective actions, and the status of any local initiatives. The annual report also contains a section entitled Audit Services Results and Management Corrective Actions. With the recent implementation at all locations of the Audit Tracker system, it is possible to report information about the outcomes of the University's various audit, advisory services, and investigation efforts in terms of frequency of audit findings and recommendations within areas of the University, the nature of the control issues, their severity, and, prospectively, their implementation status. Over time, the usefulness of these data will be enhanced in order to disclose themes and trends. The tool will give the University Auditor a mechanism for identifying and periodically reporting to senior management and the Committee any significant audit recommendations that are not being attended to by management in a timely manner.

Mr. Reed recalled that the annual report gives the Committee information to help fulfill its responsibility to oversee and assess the audit program. He elaborated on some of the information found in the report, stating that the average staffing of the audit program was 130 auditors producing 800 audits, advisory services, or investigation reports that consumed nearly 180,000 hours of effort. The plan had called for 138 auditors producing 202,000 hours of effort. The staffing goal was not reached because it was not possible to complete recruitment efforts quickly enough and because positions had to remain open due to budget constraints. There are new audit directors at the Los Alamos laboratory, UC San Francisco, UC Davis, and UC Santa Barbara, and a new director of investigations at the Office of the President. He noted that the mix of efforts among audits, investigations, and advisory services is similar to the prior year's plan, except for the decline in advisory services, which is the most discretionary of the project categories. The historical trend continues to demonstrate that the program of regular audits remains the foremost priority and time commitment for internal audit.

Mr. Reed reported that 70 percent of the audit plans for the year were completed, which is in line with industry benchmarks. Audit coverage of high-risk planned audits of 71 percent was below the prior year's coverage of 74 percent. When a shortfall in resources makes it necessary to change priorities during the course of the year, it is done using a risk-based approach: lower risk projects are dropped from the audit plan. There were 231 investigations cases, an increase over the previous year's 197, although less time was spent on them than planned.

Mr. Reed recalled that Audit Tracker was developed to help gather overall information about the outcome of the entire audit investigation and advisory services efforts for the year. Its day-to-day purpose is to improve internal audit's follow-up capabilities to ensure that any needed corrective actions are taken in a timely manner. This year there were 2,058 agreed-upon management corrective actions (MCAs), which are actions planned by management and agreed to by the auditors as appropriate for correcting observed deficiencies or opportunities for enhancement. Management corrective actions are weighted heavily toward audits, but in creating the tool it was learned that because internal auditors often write two reports from an investigation, one addressing a crime and the other an analysis of the control breakdown, a number of the reports were being classified as audits. In order to focus on the root causes of matters that require investigation, reporting will be clarified in order to track the matters as investigation topics. Each management corrective action is categorized as to risk. For this purpose, high risk is determined in the local context. Although 712 MCAs were listed in the report as high risk, these do not constitute material deficiencies in controls. The distribution of the management corrective actions across the spectrum of University functional areas indicated no service type had a disproportional rating. There is a high correlation between the relationship of high risk to total management corrective actions for the academic campus departments.

Mr. Reed noted that internal audit has made an effort to learn more about what types of control issues are most commonly found. One way to codify controls is to use the University's adopted internal control framework COSO, which was established in the early 1990s by the Committee of Sponsoring Organizations. COSO is the prevalent control framework being used in the commercial sector in conjunction with Sarbanes-Oxley control certifications. As shown in the annual report, all audited findings that resulted in management corrective actions tended to be distributed equally across the five control elements identified by COSO, with control activities being the predominant type of control deficiency identified. Internal audit is aware of the importance of giving adequate consideration to the control environment, management's assessment of risk, and its mitigation plans.

Mr. Reed reiterated that Audit Tracker allows auditors to track the time to completion of the corrective actions to which management is committed. Because of the newness of the Audit Tracker system and because a large percentage of the audit reports are issued near the end of the year, the preponderance of the 2,058 MCAs are still in the open category. The pending category represents those items reported as completed by management but not yet validated by auditors. Only after audit validation is a matter moved to closed status. Use of Audit Tracker will provide internal audit with the ability to age open items and track any that are past due. Mr. Reed expected that the system would enable him to report individual, open, past due high-risk items.

Mr. Reed turned to investigation activities, noting that in 2004 there was a significant increase in reported allegations leading to investigations that came from whistleblower complaints. He recalled that specific criteria dictate when an investigation requires disclosure to Senior Vice President Mullinix. Below that threshold, auditors report virtually all investigation activity to the University Auditor. Whistleblowers who came forward internally, those who used the University's independent hotline, and those who called or wrote anonymously represented the source for 60 percent of all new cases, while management reporting represented 38 percent. The increase in whistleblowing may be attributed to increased awareness of University policies due to training efforts, the first full year of operations for the external hotline, the visibility of whistleblowers in the commercial sector, the economic climate, and the general climate for ethics and accountability. Investigations are also codified by the type of impropriety. This distribution is representative of historical patterns. Over time, it is hoped that the effort to identify not just the nature but the root causes of these cases will increase the auditors' ability to combat the causes of inappropriate behaviour. Investigations are also codified by functional area. Results indicate that the University is spending its regular audit effort to advantage, in the places where problems have arisen.

Regent Lee asked how much it has cost to establish and maintain the systemwide whistleblower hotline. Mr. Reed responded that the service charges about $135,000 per year, or about $1 per University employee. He noted that he expected to reduce that cost by half this year by contracting with a new provider.

In response to a question by Regent-designate Juline, Mr. Reed explained that the percentage of high-risk items nearly matches the total number of management corrective actions, which suggests that no functional area had an extraordinarily disproportionate level of significant findings related to the amount of effort spent by the auditors or the overall volume of findings. Mr. Juline suggested there could be patterns of concern within the University that should be more broadly addressed from a policy perspective.

Regent-designate Juline asked whether there were an automatic trigger to inform the affected operating unit that it had a delinquent management corrective action. Mr. Reed responded that the system has no such feature yet, but it would be a natural evolution of Audit Tracker to send out a listing of corrective actions committed to be due in the next quarter. Management corrective actions are negotiated when issues arise during the audit process. They are documented in the final audit report. At the earliest possible point, the affected unit is made aware of the essence of the auditor's recommendation.

Committee Chair Novack noted that Mr. Reed's office aids the Committee in exercising its authority and responsibility. He observed that Audit Tracker has been key in ensuring that appropriate, effective corrective actions are taken.

5. **APPROVAL OF ANNUAL REPORT (AMENDED) ON INTERNAL AUDIT PLAN, 2004-05**

The President recommended that the Annual Report (Amended) on Internal Audit Plan 2004-05 be approved.

[The report was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

Committee Chair Novack recalled that the annual report, which had been presented previously, had been amended to reflect concerns about the way in which issues concerning ethics had been treated. He believed that the amendments had addressed these concerns adequately.

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

6. **SUMMARY OF FIRST QUARTER INTERNAL AUDIT ACTIVITIES, 2004-05**

It was recalled that the Summary of the Internal Audit activities for the quarter that ended September 30, 2004 represents the first quarter of fiscal year 2005 for the campuses and the Office of the President. The laboratories' internal audit activities for the quarter that ended September 30, 2004 are part of their fiscal year 2004 report and were consolidated with the June 30, 2004 data for the campuses and Office of the President and included in the *Annual Report on Internal Audit Activities 2003-2004*. University Auditor Reed commented on significant audit activities for the quarter.

Mr. Reed reported that during the first quarter the internal auditors had focused on the University's willed body program. The five medical center campuses issued their phase-one reports, which examine willed body program controls, including inventory and accountability. These reports have been blended with the overall audit effort to review the willed body program, with the help of a consultant, which will be discussed at the January meeting. Later in the quarter, the internal auditors looked beyond the willed body program to examine any issues concerning the acquisition of human anatomical material used for research purposes outside of the willed body program.

Mr. Reed reported that in the fourth quarter the laboratories finalize their cost liability audits. These are some of the most comprehensive audits done in the course of the year. The audits, which are required by the Department of Energy under the University's laboratory management contracts, address the allowability, under federal acquisition regulations and the specific terms of the DOE contracts, for all the costs that flow through those contracts. There had been concerns voiced by the DOE Inspector General about the way in which this audit had been conducted at the Los Alamos laboratory. Mr. Reed recalled that while he was acting director of audit at Los Alamos, he asked the three laboratories jointly to craft a University standard cost liability audit program that would meet with DOE approval. The UC model that emerged has been embraced by the Inspector General's Office. This year's results of the three audits were positive.

Mr. Reed recalled that the San Diego campus has been involved in a continuous monitoring experiment during the quarter that resulted in the issuance of a white paper on that topic. Continuous monitoring is the use of computers to review data, extract data, and mine data on a continuous basis as opposed to having auditors come in after the fact. Continuous monitoring starts frequently with an audit objective and then migrates to management as a regular control. The Los Alamos laboratory, for instance, after the procurement card problems of previous years, is doing regular data mining to look for anomalies and transactions that may be personal in nature. Continuous monitoring is time-consuming and costly, but it is an important development in auditing and controls.

Mr. Reed reiterated that a lot of time was spent populating Audit Tracker with data in order to track the status of open investigations, following those that have been reported to the Committee, the Senior Vice President, and the police, and tracking losses and a variety of other elements that will enhance effectiveness.

Mr. Reed provided an update on the staffing shortfall for the year. During the quarter, five campus audit directors were added, but because four auditor directors were lost, the staffing improved only slightly against the plan. At no location is there a shortfall that causes concern about the ability to carry out a reasonably robust program, but it will be necessary to prioritize carefully.

Regent Ruiz asked whether the University is on track to complete its audit schedule. Mr. Reed explained that it is too early in the year to make a prediction concerning the campuses. The University is about 4,000 hours, or 10 percent, behind in the amount of manpower that was projected to be needed in the first quarter to complete the plan. He noted, however, that no scheduled audits have been dropped. It is expected that most of the audit plan will be completed, although, because of the dynamic nature of the environment, audit plans are never completed fully; items are always dropped or added. He confirmed that he would report to the Committee if it appears that a critical audit will not get done and if he perceives a major threat to the strength of the audit program.

7. **UPDATE ON SIGNIFICANT OPEN INVESTIGATIONS – UNIVERSITY OF CALIFORNIA, DAVIS MEDICAL CENTER FOOD SERVICES AND UNIVERSITY OF CALIFORNIA, IRVINE EPIDEMIOLOGY**

University Auditor Reed presented a brief status report on two significant open investigations. He reported that an investigation of UC Davis Medical Center Food Services was nearing conclusion. It was determined that $492,000 had been embezzled over several years by fraudulent payments to nonexistent vendors that could be set up because the control system allowed Food Services both to establish vendors in the system and to initiate payments, an authority which has been removed. The individual involved in the embezzlement was a supervisor who had compromised the passwords of her subordinates who were carrying out the transactions. When confronted, she turned herself in and subsequently entered a plea bargain with the Yolo County District Attorney that resulted in a four-year prison sentence and an order for restitution of $520,000 to the University, which includes $28,000 for the cost of the investigation. Efforts to identify restitution prospects are ongoing. The internal controls that allowed the situation to happen and to go undetected have been corrected.

In response to a question from Regent Ruiz, Mr. Reed reported that the case came to the attention of the campus because its banking facility suggested that there were irregularities in payments to particular vendors.

Regent-designate Juline commented that a basic element in the case was the lack of separation of duties. Mr. Reed affirmed that this particular department had been given the authority to establish vendors because it was purchasing the food for the hospital. Absent the password violation, there had been appropriate separation between the supervisor and her subordinates. It is a standard of the University to have those duties separated in all operating units. He noted that separation of duties is one of the auditors' most frequent control recommendations. While the University is a huge organization, it is a composite of thousands of relatively small business units. Senior Vice President Mullinix added that in this case, the supervisor had inappropriately induced a subordinate, on the basis of what appeared on the surface to be a reasonable management reason, to disclose passwords. The person who was induced was absolved of complicity in the scheme.

Mr. Reed discussed the second open investigation involving a computer system in the Epidemiology division at UC Irvine, recalling that in September an interim report was issued concerning $2.4 million in costs that did not appear to comply with contract and grant terms. The responsible federal funding agency has not made a final determination as to the appropriateness of the costs. The University put in place substantial intervening management oversight plans which seem to have corrected the problem, although there are still some concerns about the money spent on the system that will have to be resolved.

8. **CONSIDERATION OF USE OF OUTSIDE EXPERT**

Committee Chair Novack commented that if The Regents were a publicly traded company, it would be required to have as one of its members a "financial expert," which is a defined term under Sarbanes-Oxley, and to disclose the fact otherwise. The Regents is not subject to Sarbanes-Oxley and does not trade its stock publicly, but it also does not select the members of its board and thus cannot guarantee that at any time it would have a financial expert.

Senior Vice President Mullinix suggested that the Committee appoint one or two qualified financial professionals to attend Committee meetings. He believed that outsiders could provide viewpoints and ask questions that would be pertinent. He noted that the Committee on Investments initially had an Investment Advisory Committee that met separately, but eventually the meetings of the two groups were combined, with positive results.

Regent Ruiz supported the recommendation, as did Regent Lee, although he noted that, unlike the Committee on Investments, the financial experts for the Committee on Audit would be required to understand the University's entire financial system and the details of how it is operated, including at the DOE laboratories and hospitals. He believed that it would require a significant time commitment.

Regent-designate Rominger asked whether there were funds to compensate an outside expert or experts. Mr. Mullinix was hopeful that alumni would volunteer and would make long-term commitments. He believed that these volunteers could be helpful in different ways, according to their expertise.

Although Regent-designate Juline believed it would take extraordinary volunteers, he was optimistic that they could be found among the University's alumni.

Committee Chair Novack asked Mr. Mullinix to set some criteria for selecting outside financial experts and to provide them to him for review by December 15.

The Committee went into Regents Only Session at 12:15 p.m..

. . . .

The meeting adjourned at 12:40 p.m.

Attest:

Associate Secretary