The Regents of the University of California

COMMITTEE ON AUDIT
March 4, 2008

The Committee on Audit met on the above date by teleconference at the following locations: 1111 Franklin Street, room 12129, Oakland; James E. West Center, Board Room, Los Angeles Campus; 1130 K Street, Suite 340, Sacramento; 3750 University Avenue, Suite 610, Riverside; and 2055 L St. NW, Washington, D.C.

Members present: Regents Allen, Bugay, Lozano, Ruiz, Schilling, and Varner; Advisory member Croughan; Expert Financial Advisor Vining

In attendance: Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Vice President Broome, University Auditor Reed, and Recording Secretary Johns

The meeting convened at 10:05 a.m. with Committee Chair Ruiz presiding.

1. **PUBLIC COMMENT PERIOD**

The following person addressed the Committee concerning the item noted.

A. Mr. Mark Thomas, a partner with the KPMG accounting firm, referred to the agenda item regarding external audit services to be provided by PricewaterhouseCoopers. He noted that KPMG participated in the University's recent Request for Information process and expressed disappointment that the University had not opened its audit contract to a competitive bidding process. Mr. Thomas stated that the audit landscape has changed in the years of the University's contract with PricewaterhouseCoopers and opined that this would be an opportune moment for UC to hear from other firms and gain the benefit of other points of view. He stressed his firm's experience, resources, and desire for a competitive bidding process to perform audit work for UC.

2. **INTERNAL AUDIT QUARTERLY REPORT**

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

University Auditor Reed noted that this quarterly report, for the quarter ended December 31, 2007, is the mid-year report. He began his presentation with comments on the progress toward completion of the fiscal year 2007-08 audit plan. Internal Audit is about 30 percent behind in hours devoted to new projects in this year's plan due to staff shortages, a substantially increased volume of

investigation hours, about 3,500 hours more than planned, carryover projects from the previous year, and time spent on audit follow-up.

Mr. Reed noted the relative distribution of time devoted to audits, 66 percent, advisory services, 15 percent, and investigations, 19 percent, respectively. Internal Audit continues to experience a trend for investigation hours to exceed time spent on advisory services. Mr. Reed expressed the wish that this trend might be reversed, but pointed out that four UC locations spent more than 25 percent of their time on investigations. The bulk of this investigation time was taken up by matters previously reported to the Committee and made public, involving the UCSD Preuss School and the UCD Food Stamp Nutrition Education Program.

Internal Audit recently completed a review of the Annual Report on Executive Compensation for Calendar Year 2007, to be presented to the Regents at the upcoming March meeting. Mr. Reed stated that the Report is accurate, reflects a strenuous, robust effort, and has undergone careful review. He noted room for improvement in process issues due to the complexity of measuring some reported items, which are not derived from the payroll system, but from the Mortgage Origination Program or from taxable transactions. For stipend compensation, the annual rate of pay is reported, and this may not correspond to the information on the W-2 form.

Regent Lozano asked if information on process improvements has been made available to Human Resources and Information Technology administrators. Mr. Reed responded that he is working with Executive Director Larsen, sharing site-specific process issues from the campuses which will be formulated into process improvements. In response to another question by Regent Lozano, Mr. Reed added that the current effort aims at making the reporting of compensation more consistent with payroll system information and W-2 calculations, and providing additional disclosure about annual stipend compensation rates.

Regent Schilling requested an update on the status of system upgrades that would facilitate audit work. Mr. Reed and Chief Compliance and Audit Officer Vacca responded that it would be possible to arrange a presentation at the next Committee meeting.

Faculty Representative Croughan inquired about income reporting compliance for the Senior Management Group, specifically annual outside income. Ms. Vacca responded that reporting has occurred, but that there is not a consistent systemwide understanding of what needs to be reported. The Compliance and Audit Office will examine this issue, working with Executive Vice President Lapp.

Mr. Reed continued with his discussion of Internal Audit activities. In November 2007 there was a two-day training session for most of UC's auditors, focused on compliance and information security issues. This session was part of an annual systemwide training program. He informed the Committee that Audit Director positions at UCB and UCI have been filled. The UCSB position is currently under recruitment, and is being temporarily filled by an Associate Audit Director from UCOP.

Mr. Reed observed that there might be an opportunity to make up for some lost time during the second half of the year, as two systemwide audits, part of the audit plan for this year, have been deferred to next year for timing reasons. One is an information technology security review, a review of self-assessments carried out at the UC locations. The second audit is a review of implementation of executive compensation policies which was occasioned by the Mercer Human Resource Consulting study.

Mr. Reed reported that Internal Audit spent over 4,000 hours during the first half year on Management Corrective Actions (MCAs), follow-up to ensure that corrective actions from previous audits are implemented in a timely fashion. As of December 31, 2007, there are a total of 18 open high risk, past due MCAs. Many of these are corrective actions which require work on information systems and frequently lag behind target dates. Mr. Reed stressed that these actions are receiving attention and that there is an active plan at work to implement them.

Mr. Reed noted the changing total numbers of open MCAs during the last half year. There were 610 open MCAs on July 1, 2007. During the year, 1,127 MCAs were added; 677 MCAs were closed, leaving a current total of 1,060 open MCAs. He observed that such fluctuation is normal. Increase in the number of MCAs during the first half of the year is due to the June 30 audit close-out date, which generates audit reports and new MCAs. Mr. Reed stated that the amount of about 1,000 open MCAs is not a cause for concern and was approximately the same last year at this time. In an average year, Internal Audit issues 2,000 recommendations; if the overall volume is not excessive, attention can be focused on past due and coming due items.

Faculty Representative Croughan asked if a slight increase in MCAs might in fact be a sign of improvement in compliance, better reporting, and better detection, and if the number of MCAs could then be expected to level off and decline in the future. Mr. Reed responded that a systemwide database tracking system, when it was first implemented about three years ago, began with an inventory of about 4,000 open recommendations. The current level represents what is probably a normal level, with some fluctuation.

Committee Chair Ruiz asked Mr. Reed and Ms. Vacca to consider better ways to manage the number of MCAs and especially high risk MCAs. He suggested that the campuses might take more responsibility in managing these corrective actions.

Mr. Reed responded that an enhancement to the database system is being developed, with a more forward-looking emphasis, which will facilitate communication with the issue owners, those responsible for the corrective action. On the campuses, these issues are also communicated to the appropriate vice chancellor.

Mr. Reed concluded with some remarks about the current environment. Competing priorities and limited resources are making it more difficult for managers to meet their commitment to corrective actions. The Voluntary Separation Program and restructuring at the Office of the President, and the fiscal constraints at the campuses present a challenge to the system of internal control; there has been a loss of intellectual capital and lack of continuity. Internal Audit has an opportunity to assist managers in preserving controls by encouraging them to be flexible with their audit plans and helping them redesign these processes. Finally, he noted that the Internal Audit Program is not immune from budget impacts.

3. **DISCUSSION OF COMPLIANCE PROGRAM MODEL**

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

Chief Compliance and Audit Officer Vacca began her presentation by discussing an academic compliance program model used by the University of Texas. There has been communication with the University of Texas as well as a site visit to learn about their compliance function. The University of Texas is being used as a benchmark because, among American universities, it most resembles UC with its multiple campuses and combined structure. It is a model in which issues move up to a Board and management leadership.

Ms. Vacca next presented a proposed infrastructure model for UC, with a communication mechanism at all campuses which would encompass all compliance activities. She informed the Committee that four current priorities for UC's ethics and compliance program are areas of highest risk for the University: conflicts of interest, research, contracts and grants, and compensation. Compliance activities in these areas are fragmented across the system.

The proposed model includes Campus Compliance Risk Committees. Ms. Vacca acknowledged that some campuses might already have such a committee in place. This Committee would be chaired by the chancellor or the executive vice chancellor. Committee membership is still being determined; the intention is to ensure broad representation of campus constituencies. Ms. Vacca noted that Faculty Representatives Croughan and Brown have participated in discussions on how best to include academic activities in this model.

The Campus Compliance Risk Committees would report to a systemwide UC Compliance Risk Council, which in turn would report risk communications to the Chief Compliance and Audit Officer, who reports to the Regents. It is hoped that this model will increase communication about what is occurring on campuses, and help to leverage best practices systemwide.

Regent Schilling asked about the relationship between compliance and audit. Ms. Vacca described audit as a component of compliance. She stressed that the two are independent and do not overlap, but she noted that Internal Audit will be taking on compliance auditing and monitoring.

Regent Schilling asked about the budget for campus participation in the compliance program. Ms. Vacca responded that the compliance program has been absorbed in the Internal Audit budget, which will be enhanced in the proposed new budget, to be presented by Executive Vice President Lapp.

Ms. Vacca continued by noting that an inventory is currently being carried out of relevant training, and monitoring and auditing, with the goal of identifying best practices or areas needing greater focus.

Ms. Vacca then discussed a diagram of compliance matters affecting the work of principal investigators in the University. She stressed the complexity of principal investigators' oversight responsibilities, which include research administration, contracts and grants, human resources issues, and conflicts of interest, and pointed out numerous outside regulators who are interested in the work done by principal investigators. It will not be an easy task to develop a systemwide compliance model for UC's principal investigators, and the model that is developed will necessarily be a dynamic one.

Committee Chair Ruiz asked about the timing of compliance program development and how long it would take for the program to be implemented. Ms. Vacca cited the current development of the program structure and informed the Committee that a model, charter, and mission for the ethics and compliance program will be presented at the July meeting, for adoption by the full Board. She discussed current activities, including collection of data which she anticipated presenting at the May meeting, meetings with leadership groups across the system, and the formation of work groups to address risk areas that require action before the program is fully implemented, such as conflict of interest, international activities, and information technology security.

Committee Chair Ruiz reported that a qualified candidate has been identified for the Expert Compliance Advisor position, and that the approval process is under way, including background checks. He anticipated that this might be resolved at the May meeting.

4. **AMENDMENT OF BYLAWS 12.1 (RESPONSIBILITIES OF THE COMMITTEE ON AUDIT); 21.5 (DUTIES AND RESPONSIBILITIES OF THE SENIOR VICE PRESIDENT–CHIEF COMPLIANCE AND AUDIT OFFICER); 10.1 (STANDING COMMITTEES); AND 10.4 (EX OFFICIO MEMBERS)**

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

Committee Chair Ruiz recommended that, with the concurrence of the Committee on Governance, the Committee on Audit recommend to the Regents that, following service of appropriate notice, Bylaws 12.1, 21.5, 10.1, and 10.4 be amended, as shown in Attachment 1.

Chief Compliance and Audit Officer Vacca noted that the amendment of Bylaw 12.1 changes the name of the Committee to the Committee on Compliance and Audit. The amended version of Bylaw 21.5 defines the role of the Senior Vice President/Chief Compliance and Audit Officer.

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

5. **AMENDMENT OF REGENTS' POLICY ON CHARTER OF THE COMMITTEE ON AUDIT**

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

Committee Chair Ruiz recommended that, with the concurrence of the Committee on Governance, the Committee on Audit recommend to the Regents amendments to the Charter of the Committee on Audit, as shown in Attachment 2, to reflect more specific oversight responsibilities for the Committee regarding the Senior Vice President/Chief Compliance and Audit Officer, the Corporate Compliance program, and the new administrative reporting relationship between the University Auditor and the Senior Vice President/Chief Compliance and Audit Officer.

Chief Compliance and Audit Officer Vacca explained that the amendments to the Charter add the compliance function to the Committee's responsibilities, and pointed out that the most significant changes are made in the section on "Oversight Responsibilities," III A-H.

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

6. **ADOPTION OF REGENTS' POLICY ON APPOINTMENT OF EXPERT ADVISORS TO THE COMMITTEE ON AUDIT AND REGENTS' POLICY ON DEFENSE AND INDEMNIFICATION OF REGENTS IN CIVIL PROCEEDINGS**

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

Committee Chair Ruiz recommended that, with the concurrence of the Committee on Governance, the Committee on Audit recommend to the Regents (a) adoption of a Regents' Policy on Appointment of Expert Advisors to the Committee on Audit and (b) amendment of the Regents' Policy on Defense and Indemnification of Regents in Civil Proceedings to make conforming changes, as shown in Attachment 3.

Chief Compliance and Audit Officer Vacca briefly discussed the development of the proposed policy, including the role and selection criteria for the Expert Compliance Advisor.

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

7. **APPROVAL OF EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2008**

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

The President recommended that the Committee on Audit recommend to the Regents that the scope of the external audit of the University for the year ending June 30, 2008, including the expanded external audit coverage of the Lawrence Berkeley National Laboratory (LBNL), be approved.

Vice President Broome introduced PricewaterhouseCoopers lead partner Joan Murphy and her colleagues, Ms. Peggy Arrivas, the partner in charge of medical center work, and Mr. Alan Page, senior relationship partner in the San Francisco office.

Ms. Murphy noted that she would discuss significant issues from the UC Audit and Communications Plan for the year ending June 30, 2008, presented by PricewaterhouseCoopers (PwC). She expressed appreciation for the opportunity to meet with the Committee in off-cycle meetings, which allows more time, and suggested that PwC could introduce UC to some of its national industry leaders, perhaps in the form of an annual visit, to give the University a wider perspective on various industries.

Ms. Murphy began her discussion by clarifying PwC's objectives. She pointed out that PwC serves different constituencies in carrying out audits: stakeholders, the Committee on Audit, and management. She briefly reviewed the communications plan timeline. PwC's work begins in March, an interim phase takes place in April and May, and core year-end work is done in August, September, and October. PwC issues its opinion on the audited financial statements in time for the November Regents meeting.

Ms. Murphy then turned to regulatory developments that affect UC. As a recipient of significant federal awards, the University faces compliance rules and risk. The federal government also focuses on areas of potential non-compliance, such as cost transfers, transfer of charges from one award to another. Another focus is on research effort reporting, the mechanism for an individual to report time charged to a grant. The federal government is also concerned about summer salary limits, tracking effort on training grants, and policy for timeliness of effort certification. These will be areas of focus for PwC when it carries out the A-133 audit. Ms. Murphy anticipated that the federal government will issue an updated compliance supplement, a guide for auditors, in March 2008. No sweeping or critical changes are expected.

Turning to operational developments, Ms. Murphy noted that PwC is aware of public scrutiny of the University, budget constraints, and the building expansion under way on the campuses and at the medical centers. She referred to the transition to management by a joint venture at the Lawrence Livermore National Laboratory at the end of the first quarter of fiscal year 2008. PwC will examine how costs were transferred in that transition.

The University reports under requirements of the Governmental Accounting Standards Board (GASB). Two GASB pronouncements will affect the University this year. GASB 43 and 45 concern post-retirement benefit plans: health care, dental care, and vision care. In the past, governmental institutions have used a pay-as-you-go accounting system for these benefits. With the adoption of GASB 45, UC will convert to accrual basis accounting for post-employment benefits. This is a significant change, because actuaries will be involved in helping management understand future obligations. GASB 45 applies to the employer, and GASB 43 applies to the plans themselves.

Three relevant pronouncements which will be in effect in the future are GASB 49, 51, and 52. GASB 49 concerns the accounting and financial reporting for pollution remediation obligations. It requires institutions to anticipate future obligations, such as replacing asbestos, and to accrue liability in advance. GASB 51 concerns reporting for intangible assets. Ms. Murphy noted that Financial Accounting Standards Board (FASB) pronouncements already cover this area. GASB 52 requires that the University report real estate or land held in its endowment at fair value instead of at cost. This pronouncement will likely not have a significant effect on the University.

Committee Chair Ruiz asked if shifting to fair value reporting would increase or reduce the value of the asset. Vice President Broome responded that this depends on market conditions. The University generally prefers not to have real estate in its endowment. As an example, real estate gifts are usually liquidated within a short period. Ms. Murphy added that campus foundations have some land investments that are appraised on a regular basis. Mr. Vining referred to property in Hemet which was owned by the UCSB Foundation for a long period.

Ms. Murphy referred to subprime mortgage and credit risk issues in the current investment market. PwC will examine the possible impact of these issues on the value of UC's investment portfolio.

Statement on Auditing Standards (SAS) 112 is effective this year. PwC information technology auditors will visit some locations this year which they did not visit last year, the first year when this standard was in effect. Ms. Murphy anticipated that a certain amount of education will be required at these locations about the new standard. PwC's intention is that all UC management and employees become conversant with SAS 112 language and the expectations.

Ms. Murphy explained that PwC financial statement teams visit every location every year. Information technology auditors visit the five medical centers and UCLA every year. They cycle through the other locations in an unpredictable way. Some locations might go through two or three years without an audit. This creates challenges for coordination, but Ms. Murphy opined that the implementation of SAS 112 last year led to better communication with all locations.

Ms. Murphy informed the Committee that PwC will issue a standard engagement letter with language similar to last year's contract. Vice President Broome explained that she has been delegated authority to sign the engagement letter; the Committee Chair and the Expert Financial Advisor always receive a copy. In response to a question asked by Vice President Broome, Committee Chair Ruiz and Mr. Vining stated that they would like to see the letter before it is signed. Mr. Vining added that the Office of the General Counsel will also review the contract.

Ms. Arrivas then discussed how PwC's audit approach is customized to the organization of the UC system. PwC varies the amount of work carried out at locations every year based on complexity and a rotational cycle. PwC focuses on certain significant accounts, such as the medical center reserves for reimbursement and self-insured risk pools held by the Office of the President. PwC examines industry trends and issues, such as the valuing of mortgage-backed securities, and will perform additional procedures at the Office of the President on investment management.

Ms. Murphy then discussed the concept of materiality. PwC does not audit all transactions and balances. A qualitative and quantitative risk analysis determines what will be examined. The implementation of SAS 112 last year required PwC to predefine criteria for measuring a significant deficiency or a material weakness. PwC shared its overall standard of materiality with management and the Committee on Audit. In a for-profit entity, materiality is driven by net income or pre-tax income. For government institutions and for UC, operating expenses are used to define materiality, because these organizations are not profit-driven. PwC uses one percent of operating expenses as a standard for overall materiality; for UC this is about $186 million, one percent of UC's operating expenses of almost $19 billion.

Committee Chair Ruiz asked about lower thresholds. Ms. Murphy responded that PwC does not define any lower thresholds; however, in order to introduce unpredictability, it would not be unusual for PwC to drop down to a very low threshold to ensure that activity is appropriate even in small accounts. In response to Committee Chair Ruiz's question, she confirmed that PwC's materiality standard applies to aggregate as well as stand-alone accounts. Mr. Vining noted that he meets every year with Vice President Broome and the auditors to discuss adjusting entries, item by item, even if they are not material. Most are differences in accrual estimations. Ms. Murphy stated and Committee Chair Ruiz concurred that it is a worthwhile exercise to review all adjustments.

Ms. Arrivas noted that the audit is designed to select samples of transactions, not to detect fraud. She stated that it is important for management to establish a program to identify potential fraud in the organization. PwC performs certain procedures that are fraud-related, with a focus on two types of fraud: fraudulent financial reporting and misappropriation of assets. She affirmed that PwC will bring matters of concern to the University's attention. She noted that, given the size and complexity of UC, there might be smaller issues that PwC will not identify. Ms. Arrivas asked if the Committee had any particular concerns related to fraud, or requests for areas of focus for this year. Ms. Murphy added that she usually asks the Committee Chair and the Expert Financial Advisor directly about this.

Ms. Arrivas continued by identifying the State of California, the campus foundations, the UC Retirement Plan, the UC health benefit plan, and the Regents as related parties of the University. Management is responsible for identifying policies and procedures concerning transactions with related parties: accounting, identification, and disclosure of these transactions in financial statements. PwC examines management policies and procedures, determines if there are transactions with related parties not identified by management, and determines if the accounting was appropriate. Ms. Murphy added that the standard of materiality is lower for disclosure of related party transactions.

Ms. Murphy briefly discussed the reporting timetable. PwC's target for issuing the A-133 audit is January 2009. She informed the Committee that she would be the signing partner for this audit, taking over from Mr. Rick Wentzel.

Mr. Page discussed the concept of thought leadership, an area in which PwC can serve the University with its specialized industry knowledge. PwC experts regularly discuss developments in the Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission, new accounting standards, and the standard-setting process with commercial clients. PwC representatives from its public and regulatory affairs group present issues to clients regarding regulation of the profession and the Public Company Accounting Oversight Board. Mr. Page suggested that it would be useful for the Committee to have discussions with Mr. John Mattie and Mr. Bob Valletta, partners who lead PwC's higher education and health care practices. He stated that Ms. Murphy would work with the Committee to find a place in the agenda for such presentations. Vice President Broome observed that the off-cycle meetings of the Committee now lend themselves to such presentations and opined that PwC's health care and higher education specialists have a perspective that would be valuable for the Regents.

Committee Chair Ruiz concurred and asked if any other Committee might wish to be included at such a meeting. Regent Schilling suggested that the Committee on Health Services might be interested. Vice President Broome noted that this might be a valuable joint committee meeting, citing new developments in the health care field.

Mr. Vining observed that private companies have been hired by Medicare to review Medicare claims and disallow them. Although most follow-up appeals have been won by the provider, this is still an onerous process. This review will begin with files no earlier than October 2007, so that the University's fiscal year 2008 will be the first year affected. Chief Compliance and Audit Officer Vacca explained that these reviews are carried out by recovery audit contractors (RACs). Ms. Arrivas stated that PwC is familiar with this process.

In response to a question asked by Committee Chair Ruiz, Mr. Vining confirmed that these auditors are hired by the government to recover monies. An area of focus where money has been disputed is rehabilitation, the length of rehabilitation and when it should end. Ms. Arrivas observed that the auditors are remunerated with a percentage of the amount recovered. Mr. Vining stated that, if the University can ensure better documentation in its files from its providers, it will be better prepared for this audit.

Vice President Broome noted that the University carries out a similar process when it engages reviewers to review sales taxes and ensure that UC has not inappropriately paid sales tax. Likewise, the University reviews vendor payments to avoid duplicate payments and, more importantly, to detect differences in terms.

A vendor may be improperly offering more favorable terms to another company or entity. She pointed out that UC has received money back in this area.

Ms. Murphy briefly commented on the PwC engagement team involved in this year's audit. She noted a new quality review partner for the UC audit, Ms. Denise Marbach, who has higher education and health care expertise.

Committee Chair Ruiz asked about monies spent on National Collegiate Athletics Association (NCAA) activities. Ms. Murphy responded that each campus and medical center has a staff team with a partner and manager. She leads the team for UCSF, UCB, and UCSC; Ms. Arrivas is responsible for several medical centers. The location teams carry out NCAA audit work. Not all the campuses participate in NCAA. Any detailed testing is also done at the local level. For the A-133 audit, the sample is spread among all locations; local teams carry out the work, which is aggregated into a lead A-133 team.

Committee Chair Ruiz requested clarification of certain listed PwC audit fees. Ms. Murphy explained that the listed incremental requirements, totaling $235,000, are a detail, part of the total audit cost of $4,079,959. Vice President Broome stated that the increase in the core audit cost has been held at six percent. She explained that the incremental requirements are new requirements that have become part of the annual examination.

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

8. **EXTERNAL AUDIT SERVICES**

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

The President recommended that management negotiate a fee arrangement with PricewaterhouseCoopers (PwC) to provide external audit services to the Regents for a three-year period beginning with fiscal year 2008-2009. The results of the negotiation of the fee arrangement would be considered at the May meeting of the Committee on Audit.

Vice President Broome began by noting that an informal review is carried out every year with campus controllers, medical center and laboratory chief financial officers, and the controller of the retirement plan regarding their satisfaction with external audit services. The review is informal but is recorded in meeting minutes. This year the review will be formalized.

PricewaterhouseCoopers (PwC) has performed UC's external audit since 2000. Deloitte & Touche provided external audit services between 1996 and 1999, and KPMG between 1984 and 1996. Ms. Broome stressed that the extent of services

provided by the Regents' auditor is significant. The auditor examines financial statements, issues management letters, audits bond indentures, and reviews the UC tax return. The auditor carries out the significant and detailed A-133 audit and issues opinions on the financial statements of the five medical centers and the UC Retirement System.

This year, the auditor will opine on the new UC Retiree Health Benefits Trust. The auditor will perform certain NCAA agreed-upon procedures, an expanded audit of the Lawrence Berkeley National Laboratory, and will audit nine of the ten campus foundations. Ms. Broome observed that it was convenient to have PwC perform the campus foundation audits for timing coordination and for SAS 112 implementation. Other audit work includes Continuing Education of the Bar (CEB), UC Press, and other health and welfare plans. The auditor is available for presentations to the Committee on Audit and attends campus audit committee meetings.

In order to review the auditor's service, the University developed a survey, covering all broad categories of service and requesting feedback on satisfaction and the degree of satisfaction. The survey was distributed to relevant constituents at the campuses, medical centers, UCOP, and LBNL.

Ms. Broome reviewed the results of survey, which scored PwC on various categories of expertise, on technical assistance, and access to firm specialists. She emphasized the importance of technical assistance and access to specialists, particularly for implementation of GASB pronouncements, which has been very complicated for UC, and for complex lease transactions. PwC was also rated on industry leadership, staffing quality and continuity, and coordination and communication. On a scale of 1, poor, through 5, excellent, PwC received high ratings. There were also qualitative comments on the quality of service. The lowest rating was 3.7, for electronic data processing (EDP) audit approach. Ms. Broome ascribed this score to the fact that PwC does not carry out this review at every location every year, with a resulting lack of continuity and communication, and to the implementation of SAS 112. She opined that, of all areas of control, UC staff understand this area the least. She added that much time has been spent on education about information technology controls.

The second phase of the review considered what other firms might provide the same services. Ms. Broome recalled that UC is required to be audited by a national accounting firm. The University sent a Request for Information (RFI) to the four national audit firms about their qualifications to provide the services needed by UC. The four firms were Deloitte & Touche, Ernst & Young, KPMG, and PwC. Deloitte & Touche and Ernst & Young declined to respond, presumably because they do not have the required expertise. Responses were received from KPMG and PwC, and were reviewed by the Chief Procurement Officer.

The RFI requested information in categories which mirrored the categories of the earlier UC survey. PwC's responses indicated a significant commitment to higher education and health care, a deep understanding of UC's organization and internal controls, expertise in auditing major research universities, academic medical centers, public employee retirement plans, Department of Energy laboratories, federal grants and contracts, sophisticated investment securities, and campus foundations. PwC's response also included plans for staffing continuity. Ms. Broome noted that UC has experienced continuity of service from PwC as well as freshness through rotation. As an example, she noted that Ms. Arrivas was the partner in charge at the UCD Medical Center. When her rotation time was over, she went to UCI, where she faced new challenges, but with an understanding of the UC system. PwC had obvious GASB expertise.

KPMG's response to the RFI indicated a commitment to higher education and health care. As major research university clients in the western region, KPMG audited Oregon Health and Sciences University, the University of Colorado, and the University of Washington. KPMG did not indicate any higher education research institution clients in California. KPMG indicated national office support for GASB clients. KPMG audits the California State University system, with 23 locations and a June 30 year end. However, CSU is not a major research institution and does not have academic medical centers or its own retirement plan.

In considering the RFIs, it was noted that KPMG has a commitment to higher education and health care, but lacks California academic medical center expertise. This is an important area and source of reimbursement for UC, with over $500 million in Medi-Cal revenue. KPMG did not indicate major research university experience in California or experience with California public retirement systems.

The survey demonstrated that all UC locations had a high opinion of PwC's services. Ms. Broome stated that PwC has provided consistent high-quality service to the University. She emphasized the importance of having an auditor of high quality with a commitment to UC. She stated that PwC understands the University's mission and knows its business and financial risks. She noted that PwC's dedicated teams are already in place, that UC has a good working relationship with PwC, and that PwC responds quickly to problems or concerns.

Ms. Broome noted that there would be a considerable cost involved in changing firms. It would also take time to inform new auditors about UC's operations and controls. UC locations indicated no interest in changing firms. She concluded by referring to the administrative changes now occurring at UC. Significant administrative reductions are anticipated, and it is important that the University not lose controls during this period. Based on all these considerations, it is recommended that UC negotiate a fee arrangement with PwC to perform UC's external audit for a three-year period beginning in fiscal year 2008-09.

Mr. Vining anticipated that the University will undergo significant structural changes over the next three years due to the State budget and other issues. For this reason, it was important to examine the University's external audit, conduct a survey, and find out about other firms interested in working for the University. He opined that a three-year arrangement would help to stabilize the situation during a time of change and crisis. At the end of these three years, and after twelve years of audit services by PwC, the University should, with good preparation, restart the bid process.

Mr. Vining observed that the University does not yet have a three-year bid, and that there are issues still to be reviewed, such as SAS 112 and the EDP audit. He believed that there would be sufficient time for PwC and UC staff to formulate a three-year proposal to be reviewed offline by the Committee on Audit in early May and presented to the full Board at the May meeting for their review.

Committee Chair Ruiz referred to the earlier public comment by Mr. Thomas of KPMG, and expressed concern about whether KPMG was given enough time to put forward a response. Vice President Broome responded that KPMG was given almost a month to provide information about their qualifications. She stressed that UC requested information, not a proposal for services. Mr. Vining expressed his understanding of Mr. Thomas' statement as not a concern about sufficient time for the RFI, but that after several years, KPMG wishes to make a bid. Mr. Vining recommended that UC put out a full Request for Proposals at the end of the next three-year period.

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

The meeting adjourned at 11:55 a.m.

Attest:

Secretary and Chief of Staff

ATTACHMENT 1

BYLAW 12.

Responsibilities of Standing Committees

12.1 Committee on Compliance and Audit.

The Committee on Compliance and Audit shall:

(a) Advise the Board of Regents regarding the Board's responsibilities to oversee:

(1) the quality and integrity of the University's compliance with legal, regulatory and policy requirements, financial reporting and financial statements, and ~~compliance with legal and regulatory requirements~~ internal controls related to risks;

(2) the ~~performance, functions and~~ function, disclosures ~~of~~ and performance of corporate compliance, internal control and risk management systems regarding ethics and compliance, risk, finance~~,~~ and accounting, ~~compliance and ethics (including sexual harassment, discrimination, and conflicts of interest), and assure~~ and the adequacy of such systems~~, policies, procedures and practices~~ throughout the University; and

(3) the independent certified public accountant's qualifications ~~and~~, independence and ~~the~~ performance as well as performance of the internal audit function ~~and independent certified public accountant~~.

(b) Meet at least four times a year.

(c) ~~Monitor the University's system of internal controls and the adequacy of the accounting, financial and operational policies and practices related to financial, accounting and compliance and ethics reporting.(d)~~ Review the annual internal audit plan and ~~discuss~~ the extent ~~that~~ to which it addresses high risk areas ~~with the University Auditor and management~~.

~~(e)~~ (d) Review the annual report ~~on the accomplishments~~ of the internal audit department and discuss significant issues of internal ~~control and compliance~~ controls with the University Auditor and management.

~~(f)~~ (e) Discuss the planned scope of the annual independent audit ~~and other engagements~~ with the independent certified public accountants and review the results of the audit ~~and other engagements~~ with the independent certified public accountants and management.

~~(g)~~ (f) Receive and review the annual financial report with the independent certified public accountants and management.

~~(h)~~ (g) After considering the recommendations of management, recommend to the Board the certified public accountants to serve as independent auditor and the scope of their annual audit, and approve any services other than audit and audit related services provided by the certified public accountants.

~~(i)~~ (h) Have the power, through its chair or a majority vote of the Committee members, to request management to address specific issues within the mandate of the Committee and have the authority to engage independent counsel and other advisors to carry out its duties.

~~(j) Assure that the internal audit function reviews and examines policies and procedures in a comprehensive manner to assure that all facets of the University are undertaking such implementation in a clear, consistent and effective manner.~~

~~(k) Approve~~ (i) Provide recommendations to the Board regarding approval of the corporate compliance program model and the internal audit mission statement, the committee charter and other governance documents related to both internal and external compliance and auditing activities in the University.

BYLAW 21.

Duties and Responsibilities of Officers of the Corporation

21.5 Senior Vice President–Chief Compliance and Audit Officer.

The Senior Vice President - Chief Compliance and Audit Officer shall develop and maintain the University's Corporate Ethics and Compliance ~~Program~~ and Audit Programs, functioning as an independent and objective office that reviews and evaluates compliance and audit issues and concerns within the University. This position will monitor and report as to the Board itself, the administration, faculty, and employees on compliance with rules and regulations of regulatory agencies, University policies and procedures, and the University's Statement of Ethical Values and Standards of Ethical Conduct. This position is authorized to implement all necessary actions to ensure achievement of the objectives of ~~an~~ effective, accountable ethics and compliance ~~program~~ and audit programs.

BYLAW 10.

Committees of The Board of Regents

10.1 Standing Committees.

* * *

(b)[2] The following shall be the Standing Committees of the Board:

Committee on Compliance and Audit
Committee on Compensation
Committee on Educational Policy
Committee on Finance
Committee on Governance
Committee on Grounds and Buildings
Committee on Health Services
Committee on Investments
Committee on Long Range Planning
Committee on Oversight of the Department of Energy Laboratories

[2]As amended 6-18-82, 6-16-95, 7-20-06, and 1-18-07

* * *

10.4 Ex Officio Members.

The President of the Corporation, the Chairman of the Board or in the Chairman's absence the Vice Chairman of the Board, the former Chairman of the Board for the year immediately following a term of office as Chairman provided that the former Chairman is still a Regent, and the President of the University shall be ex officio members of all Standing Committees, of all Special Committees, and of all subcommittees, except that the President of the University shall not be a member of the Committee on Compliance and Audit or of Special Committees concerned with the selection of a President of the University.

The Chairman of each Committee shall be an ex officio member of each subcommittee of that Committee.

The Regents' representatives to the California Postsecondary Education Commission and the State Superintendent of Public Instruction shall be ex officio members of the Committee on Educational Policy.

Includes amendments through January 18, 2007

ATTACHMENT 2

CHARTER OF THE COMMITTEE ON COMPLIANCE AND AUDIT
Approved January 2007

Purpose: The Charter of the Committee on Compliance and Audit, which is issued as a Regents' Policy, is designed to provide a detailed description of the Committee's responsibilities as outlined in Bylaw 12.1. It confirms the Committee's duties for its members and for the Board of Regents as a whole, guides the annual agenda, permits tracking of tasks that discharge the Committee's responsibilities and provides, in part, for orientation of new Committee members.

The Charter is divided into six sections as follows:

I. **Committee Membership** - Composition, requirements and duration of appointment
II. **Meetings** - Frequency, attendees and closed sessions
III. **Oversight Responsibilities** - Duties of the Committee
IV. **Reporting Responsibilities** - To the Board as a whole
V. **Authority** - To retain and oversee non-University experts
VI. **Assessment** - Committee effectiveness and charter

I. Committee Membership

A. With the exception of the Governor, who is an ex officio member of the Committee on Compliance and Audit, all members of the Committee shall meet the standards of The Regents' Guideline for Determination of Board Member Independence (March, 2005) in order to serve.

B. Committee members will be appointed for staggered two year terms. The Chair of the Committee on Compliance and Audit will be expected to serve for two years where possible and should be succeeded by a Vice Chair who has served a one-year term where possible.

C. Members will have access to compliance and financial expertise either collectively among committee members or from a Compliance Advisor and a Financial ~~Expert~~ Advisor appointed to advise them.

II. Meetings

A. The Committee on Compliance and Audit will meet as needed to address matters on its agenda, but not less frequently than four times each year. The Committee may ask members of management or others to attend a meeting and provide pertinent information as necessary.

B. As permitted by the California Open Meeting Act, the Committee will conduct closed sessions with the outside auditors, Chief Financial Officer (CFO), Vice President ~~of Finance~~ –Financial Management, Controller, ~~University Auditor/~~Senior Vice President–Chief Compliance and Audit Officer, General Counsel, counsel to the Committee, outside counsel, or others when needed.

III. **Oversight Responsibilities**

A. Monitor development and implementation of a systemwide compliance program via periodic reports from the SVP–Chief Compliance and Audit Officer and location representatives.

B. Monitor specific programs designed to achieve compliance objectives.

C. Oversee development of a culture attentive to the University's commitment to ethics and compliance.

D. Review with the SVP–Chief Compliance and Audit Officer monitoring of compliance with the *Statement of Ethical Values and Standards of Ethical Conduct*, with particular attention to compliance with University policies and applicable laws and regulations.

E. Periodically review the University's *Statement of Ethical Values and Standards of Ethical Conduct* to assure that they are adequate and up-to-date.

F. Review University procedures for receipt, retention, and treatment of whistleblower and other complaints submitted by any party, internal or external to the organization, other than litigation. Review the topics, current status, and resolution of such complaints.

G. Receive and review the annual report on the University's risk management program.

H. Oversee the functional reporting relationship of the University Auditor with the Committee on Audit, including review ~~and approval~~ of the position's appointment, replacement, reassignment, or dismissal. ~~(See A.)~~

~~B~~ I. Review with the University Auditor:

(4) Significant findings on internal audits during the year and progress regarding management corrective actions.
(5) Whether Internal Audit encountered any difficulties in the course of its audits, such as restrictions on the scope of its work or access to required information.

(6) Any changes required in the scope of the internal audit mission and responsibilities.
(7) The Internal Audit department budget and staffing.
(8) The Internal Audit charter.
(9) Internal Audit compliance with the Institute of Internal Auditors' (IIA's) Standards for the Professional Practice of Internal Auditing (Standards).

~~C~~ J. Review with management any interim financial reports issued since the last meeting.

~~D~~ K. Review with the independent auditors, CFO, Controller, and ~~University Auditor/~~SVP–Chief Compliance and Audit Officer the audit scope and plan of the internal auditors and the independent auditors. Address the coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts, and effective use of University resources in the audits.

~~E~~ L. Review adequacy of internal controls, including computerized information system controls and security with the independent auditors and the ~~University Auditor/~~SVP–Chief Compliance and Audit Officer.

~~F~~ M. Review with management and the independent auditors:

(10) The effect of regulatory and accounting initiatives, as well as other unique transactions and financial relationships.
(11) Significant findings and recommendations of the independent auditors as well as management corrective actions.
(12) Critical accounting policies and practices used by the University.
(13) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of each alternative, and the treatment preferred by the University.

~~G~~ N. Review with the independent auditors matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, Communication With Audit Committees (AICPA, Professional Standards, vol. 1, AU sec. 380), as amended, related to the conduct of the audit. This will include:

1. All material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

2. The independent auditors' audit of the financial statements and related footnotes and their report thereon.

3. The independent auditors' judgment about the quality, not just acceptability, of the University's accounting principles and practices as applied in its financial reporting.

4. Any significant changes required in the independent auditors' audit plan.

5. Any serious difficulties or disputes with management encountered during the audit.

~~H~~ O. Review with the General Counsel, counsel to the Committee and the CFO, VP–Financial Management ~~of Finance~~, Controller, ~~and~~ University Auditor ~~or~~, and the SVP–Chief Compliance and Audit Officer legal and regulatory matters that, in the opinion of management, may have a material impact on the financial statements, related organization compliance policies, and programs and reports received from regulators.

~~I. Oversee the functional reporting relationship of the SVP Compliance and Audit including review and approval of the position's appointment, replacement, reassignment, or dismissal. Monitor development and implementation of a systemwide compliance program via periodic reports from the SVP Compliance and Audit and location representatives. (See A.)~~

~~J. Periodically review the University's *Statement of Ethical Values and Standards of Ethical Conduct* to assure that they are adequate and up-to-date.~~

~~K. Review with the CCO monitoring of compliance with the *Statement of Ethical Values and Standards of Ethical Conduct*, with particular attention to compliance with University policies and applicable laws and regulations.~~

~~L. Review University procedures for receipt, retention, and treatment of whistleblower and other complaints submitted by any party, internal or external to the organization, other than litigation. Review the topics, current status, and resolution of such complaints.~~

~~M. Receive and review the annual report on the University's risk management program.~~

~~N~~ P. The Committee on Compliance and Audit will perform such other functions as assigned by the Bylaws, the Charter, or The Regents.

IV. **Reporting Responsibilities**

A. The Committee on Compliance and Audit will report to the Board as a whole any action taken or significant discussions held at the earliest opportunity.

B. The Committee will receive and review annual reports for functional areas within the scope of its responsibilities and will advise the Board as a whole regarding its review.

V. **Authority to Retain and Oversee Non-University Experts**

A. The Committee will recommend appointment of and oversee the independent auditors to be engaged by the Board of Regents, establish the fees of the independent auditors, and approve any nonaudit services to be provided, including unusual tax services, before the services are rendered.

B. The Committee is authorized to engage additional independent auditors, counsel, or other consultants as necessary to discharge its duties.

VI. **Assessment**

A. Review the Committee's charter annually, reassess its adequacy and recommend proposed changes to the Board.

B. Review the effectiveness of the Committee periodically, including review of its annual agenda.

ATTACHMENT 3

~~PROCEDURE FOR APPOINTING~~ REGENTS' POLICY ON APPOINTMENT OF ~~EXPERT~~ EXPERT ADVISORS TO THE COMMITTEE ON AUDIT

The Regents Committee on Audit will appoint expert advisors to serve as subject matter experts in finance and compliance to assist the Committee in performance of its responsibilities. The advisors will meet requirements of relevant education, experience and credentials, will meet the University's standards for independence, and will be reviewed for actual or potential conflicts of interest. Reference and background checks will be completed prior to appointment. The term of appointment will be 1-3 years. Terms may be renewed if the screening committee and the Chair of the Committee on Audit determine that the individual should be reappointed for an additional term. This policy describes the criteria and process for selection.

I. The Selection Process

A. Applications and nominations will be ~~solicited by the UC Alumni Associations and~~ sent to the Office of the Secretary and Chief of Staff or the Office of the Senior Vice President–Chief Compliance and Audit Officer.

B. Candidates will be contacted at the appropriate time to confirm their willingness to serve for a one to three year term. If they are willing to serve, independence and confidentiality requirements and a background check will be conducted. They will also be informed of Regents policies concerning defense and indemnification.

~~B~~ C. The Secretary and Chief of Staff or ~~her~~ designee will convene a screening committee to review candidates. ~~Screening~~ Members of the screening committee will be ~~done by~~ the Chair of the Committee on Audit, the ~~Executive Vice President-Business Operations (who will solicit comments from others as appropriate), the~~ Senior Vice President–Chief Compliance and Audit Officer of The Regents, the Secretary and Chief of Staff to The Regents, the Vice President and General Counsel of The Regents ~~and/or his designee, and the Secretary and Chief of Staff of The Regents. The current Financial Advisor will advise the Screening Committee~~, the Vice President–Financial Management and the current Financial and Compliance Advisors. With the exception of the Advisors, all members may delegate their role to a designee. Members will solicit comments from others as appropriate. The Chair of the Committee on Audit may designate additional members of the screening committee.

D. Persons eligible for appointment as expert advisors to the Committee on Audit must be independent and there must be no conflicts of interest. Criteria for exclusion include:

1. Employment of the individual or immediate family by the University of California or the U.S. Department of Energy.

2. Employment of the individual or immediate family by the current external auditor.

3. The individual or immediate family member has been a contractor or consultant to the University or participated in their organization's decisions related to consulting with the University, receiving more than $60,000 (total) within the past three calendar years.

~~C~~ E. The screening committee will assess the following:

1. ~~•~~ Professional credentials and relevant experience.

2. ~~•~~ Potential conflicts for the candidate or the candidate's immediate family members.

3. ~~•~~ ~~Affinitie~~ Affiliations or connections with the University and its related entities.

4. ~~•~~ References and background checks done through selected public sources.

~~D. Following the screening process, acceptable candidates will be contacted to confirm their willingness to serve for a three year term, to meet independence and confidentiality requirements, and to undergo a background check. They will also be informed of Regents' policies concerning defense and indemnification.~~

~~E~~ F. Prior to making the final selection, information about the finalist(s) for the appointment(s) will be forwarded to the Chairman of the Board and the Chair of the Committee on Finance to solicit their views. The Chair of the Committee on Audit will make the final decision ~~will then be made by the Chair of~~ on the candidate to advance to the Committee on Audit for appointment.

II. ~~Criteria for~~ Financial Advisor Selection Criteria

A. Financial ~~Expert is defined as a person who has~~ Advisor shall have the following attributes:

1. ~~•~~ An understanding of generally accepted accounting principles and financial statements. For the University, knowledge of accounting principles as promulgated by the Governmental

Accounting Standards Board (GASB) applicable to higher education ~~would be helpful~~ is preferred.

2. ~~•~~ Experience in:

   a. ~~A.~~ Preparation or auditing of financial statements of generally comparable institutions and

   b. ~~B. Application~~ Familiarity with application of such principles in connection with the accounting for estimates, accruals and reserves, including ~~knowledge of the~~ third-party reserves of ~~the~~ Medical Centers as well as ~~the University's~~ self-insurance reserves

   c. ~~C.~~ The design and evaluation of internal controls

3. ~~•~~ Understanding of Audit Committee functions including oversight of ethics and compliance as well as risk mitigation matters

B. The foregoing attributes must have been acquired through any one or more of the following:

1. ~~•~~ Education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;

2. ~~•~~ Experience actively supervising any of the above-listed positions or person performing similar functions

3. ~~•~~ Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing, or evaluation of financial statements, or

4. ~~•~~ Other relevant education and experience

~~Persons eligible for appointment must be independent and there must be no conflicts of interest. Criteria for exclusion would include:~~

~~• Employment of the individual or immediate family by the University of California or the U.S. Department of Energy~~

~~• Employment of the individual or immediate family by the current external auditor • The individual or immediate family has been a contractor or consultant to the University receiving more than $60,000 (total) within the past three calendar years~~.

III. Description of the Role ~~of the Regents Committee~~ of the Financial ~~Expert~~ Advisor

A. The ~~advisor~~ Financial Advisor to the Committee on Audit is to provide advice and consultation to the Committee in the following areas:

1. Financial and accounting matters, including assistance in reviewing UC financial statements and in asking appropriate questions regarding those statements; the University's choices of accounting principles, any changes in accounting principles and estimates having a significant impact on the financial statements;

2. Compliance with GASB pronouncements and changes in auditing standards;

3. Independent views of management's compliance with accounting standards;

4. The University's internal control structure and processes, material changes in controls, the control implications of contemporary internal or external issues, and the significance of control findings reported to the Committee;

5. A view of the public accountant's expertise and overall performance;

6. General assistance with audit committee oversight of the University's accounting, auditing, ethics and compliance practices.

IV. Compliance Advisor Selection Criteria

~~H.~~ ~~**Criteria for Selection**~~ A. A Compliance Advisor shall have the following attributes:

1. An understanding of corporate ethics and compliance programs, including development and implementation programs as well as systems for monitoring. Experience in a university setting would be helpful.

2. Experience in:

   a. Prevention, detection and response to compliance risks; education, auditing and monitoring concepts;

   b. Understanding implications for compliance and culture in a changing regulatory environment;

c. Design and evaluation of internal controls and reducing compliance risks through risk mitigating activities.

3. Understanding the Audit Committee functions, including oversight of ethics, risk and compliance, as well as risk mitigation matters.

B. The foregoing attributes must have been acquired through any one or more of the following:

1. Education and experience as an Ethics and Compliance Officer or experience in one or more positions that involve the performance of similar functions;

2. Experience actively supervising such a position or person performing similar functions;

3. Experience overseeing or assessing the performance of companies with respect to their compliance, ethics or risk function, or

4. Other relevant education and experience.

~~III~~ V. Description of the Role of ~~The Regents Committee on Audit~~ the Compliance Advisor

A. The Compliance Advisor to the Committee on Audit is to provide advice and consultation to the Committee in the following areas:

1. Ethics, compliance and risk matters, including assistance in reviewing UC reports to the Committee regarding ethics, compliance and identification of risks and risk mitigation activities.

2. Advice and review of appropriate metrics for assessing compliance within the University.

3. Independent review of management's compliance with the University's corporate ethics, risk and compliance programs.

4. General assistance with review of overall performance of the SVP–Chief Compliance and Audit Officer.

5. General assistance with the Committee on Audit's oversight of the University's corporate ethics and compliance program.

POLICY ON DEFENSE AND INDEMNIFICATION OF REGENTS
IN CIVIL PROCEEDINGS
Approved January 1988, Amended May 2005

The Regents of the University of California, a corporation, shall defend and indemnify as provided in this policy any present or former member of the Board of Regents who has been, is, or becomes a party to any action or proceeding arising out of an act or omission occurring within the scope of his/her duties as a Regent. This policy shall also be applied to individuals who are ~~duly nominated by the Regents Nominating Committee and subsequently~~ appointed ~~by the Board as a whole~~ to positions as advisors to the Board of Regents or to one of its committees.

The defense and indemnification provided hereunder shall not be deemed exclusive of any other rights to which a party seeking indemnification may be entitled under any statute, bylaw, insurance, agreement, or otherwise; and shall inure to the benefit of the heirs, executors, and administrators of such party. Such defense and indemnification shall supplement indemnification provided by the California Tort Claims Act, other statutes, and other policies of the corporation and are provided for all covered actions or proceedings to the fullest extent permitted by law and regardless of any limitations of coverage contained in the indemnification provisions of said statutes or policies.

* * *