The Regents of the University of California

COMMITTEE ON COMPLIANCE AND AUDIT
March 10, 2010

The Committee on Compliance and Audit met on the above date by teleconference at the following locations: 1111 Franklin Street, Room 9204, Oakland; Woods Cove C, Student Center, Irvine campus; 4127 Hinderaker Hall, Riverside campus; 3104 Mosher Alumni House, Santa Barbara campus.

Members Present:	Regents Bernal, De La Peña, Ruiz, Stovitz, Varner, and Zettel; Advisory member Simmons; Expert Financial Advisor Schneider
In attendance:	Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Executive Vice President Taylor, Vice President Broome, and Recording Secretary Johns

The meeting convened at 1:20 p.m. with Committee Chair Ruiz presiding.

1. **PUBLIC COMMENT**

There were no speakers wishing to address the Committee.

2. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of January 25, 2010 were approved, with Regents Bernal, De La Peña, Ruiz, Stovitz, Varner, and Zettel (6) voting "aye." [1]

3. **APPROVAL OF EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2010**

The President recommended that the scope of the external audit of the University for the year ending June 30, 2010, including the expanded external audit coverage of the Lawrence Berkeley National Laboratory, be approved.

[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.]

PricewaterhouseCoopers (PwC) representative Joan Murphy presented PwC's audit plan for the year ending June 30, 2010. She began her presentation by noting that, in developing its audit plan, PwC takes into account changes and new developments in reporting as well as emerging business issues facing the University.

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

Ms. Murphy outlined highlights of the 2010 audit plan and expressed PwC's commitment to working with the University as it faces significant budgetary challenges. Fiscal year 2010 is the year in which UC will receive the bulk of its American Recovery and Reinvestment Act (ARRA) awards for research and development. PwC will remain alert to ARRA compliance requirements, which are constantly evolving. It will continue to monitor developments in federal and State hospital reimbursement mechanisms and their potential effects on UC medical centers. It will continue to focus on the fair value of investments in the University's portfolio, and will carefully examine non-readily marketable securities. PwC will review implementation of two new accounting standards, Governmental Accounting Standards Board (GASB) Statement 51, pertaining to accounting for intangible assets, and GASB Statement 53, concerning accounting for derivatives and hedging activities.

Ms. Murphy presented a list of PwC audit service deliverables. Among other services, PwC opines on the University's consolidated financial statements, issues stand-alone audit opinions for the independent financial statements of the five medical centers, and issues opinions on the employee benefit and retirement plans.

In response to a question asked by Chief Compliance and Audit Officer Vacca, Ms. Murphy explained that PwC audits the campus foundations, but that PwC is engaged separately by the campuses to conduct those audits. According to GASB requirements, the campus foundations are considered "component units." In the consolidated financial statements, there is a column for the campus foundations, collapsed together. However, this systemwide audit does not include those numbers. They are examined in the stand-alone campus foundation audits. Chief Financial Officer Taylor added that the campus foundations pay separately for these audits.

Ms. Murphy noted that there is a great deal of coordination with the campus foundations, because some of them have their investments in the UC investment pool. In that respect, the campus foundations place some reliance on this systemwide audit by PwC.

Vice President Broome recalled the issuance of Statement on Auditing Standards (SAS) 112, an pronouncement on controls which lowered the threshold of what could be considered a "control weakness." At that time, PwC arranged a training session with the University for all the campus foundation chief financial officers. PwC has worked with the campus foundations to ensure that their financial reporting is at the same high level as the University's reporting. Ms. Murphy noted that PwC audited some of the campus foundations before it was engaged to audit the University.

Regent De La Peña asked about the extent of the audits for the five academic medical centers. He asked if the audits concern only financial statements or also take processes into account. Ms. Murphy responded that the result of PwC's work on the medical center audits is the issuance of an opinion on their financial statements. To the extent that PwC has observations or internal control recommendations, it communicates these.

Regent De La Peña asked if PwC audits the processes by which departments produce the information for the financial statements. Ms. Murphy responded that PwC works on site, interacting with many management and staff employees to obtain necessary data. The focus of PwC's work is not to give an opinion or specific observations on any individual department. However, if PwC discovers an irregularity or a control weakness, it will comment on that.

Regent De La Peña asked about who reviews UC medical center accounts receivable to determine if these amounts are greater than at competitor medical centers, or to determine if UC writes off a higher percentage of accounts than competitor institutions. PwC representative Michael MacBryde responded that he oversees the audit of the UC medical centers. Accounts receivable and related estimates are a key area of focus for audit. The revenue cycle in the medical center environment involves a great deal of estimation. In order to evaluate the reasonableness of reserves and the process by which management develops reserves, PwC examines numbers and processes for the previous year or years. The audit carefully examines revenue and related estimates. PwC would comment on a situation where the number of days in accounts receivable at the UC medical centers is substantially greater than at a peer institution.

Regent De La Peña asked about write-offs. Mr. MacBryde responded that PwC carefully examines cash collections. PwC would comment on a situation where cash collections in a current year are less than those booked in a previous year, which reflects how write-offs are being handled.

Regent De La Peña asked if PwC examines the percentage of cash collections on gross billable amounts compared to previous years. Mr. MacBryde responded that accounts receivable are considered gross charges. There are individual contracts with various payers that will reduce the gross charge number to a net realizable value, the amount the institution ultimately believes it will collect in cash. These percentages vary by contract and by medical center. PwC analyzes how management has developed this system. PwC also carries out detail testing of how these percentages have been developed.

Ms. Vacca asked if PwC would comment on relevant industry developments in its audit. Mr. MacBryde responded in the affirmative. PwC provides a benchmarking survey to the UC medical centers, comparing them to other academic medical centers. UC data, such as number of days in accounts receivable, are compared to industry information.

Regent Varner asked about the individual materiality threshold for single liability issues. Ms. Murphy responded that auditors use various metrics to determine materiality, depending on which financial statements are being examined. For the University's consolidated financial statements, materiality is determined by total operating expenses. The materiality threshold is about one percent of total operating expenses. Ms. Murphy emphasized that this is the overall materiality threshold but noted that PwC also uses lower thresholds. In auditing the medical centers, materiality is determined by total operating revenues. A different metric is used because the medical centers are a different reporting entity. In auditing the University's benefit plans, PwC uses net assets to determine materiality. These entities are focused on balance sheets, on assets held, and on liabilities owed.

Committee Chair Ruiz requested information on the dollar amounts of the various materiality thresholds used by PwC. Ms. Murphy responded that she would provide this information.

In response to a question asked by Regent Zettel, Ms. Murphy explained that PwC does not examine the quality and risk of investments in the UC Retirement Plan (UCRP); this is the task of the Committee on Investments. PwC does not judge the quality of the investments, but focuses on fair value testing and ensuring that the financial statements reflect a fair value of assets. This is an important determination which influences how the obligation of the UCRP is measured.

In response to a question asked by Regent Zettel, Ms. Murphy confirmed that PwC would comment on investments that were highly aggressive. She noted that PwC compares the actual investment portfolio to the investment policy for the plan. Mr. Taylor added that the University has given serious thought to and had discussions with PwC about the valuation of its hard-to-value investments. There are a large number of alternative assets in the UCRP fund for which there are no easily identifiable market indices. Ms. Broome remarked that these assets represent a small part of the total portfolio, but are thoroughly examined. Ms. Murphy noted that PwC re-prices the readily traded securities in the portfolio using its own independent pricing system.

Ms. Murphy recalled that PwC's engagement letter outlines its audit responsibilities. The purpose of PwC's engagement is to issue an opinion on the University's financial statements and on whether they fairly present changes to the balance sheet and cash flows of the organization. The audit is designed to provide reasonable assurance that PwC would detect material fraud, but not absolute assurance. She assured the Committee that PwC would report any matter of concern.

Ms. Murphy noted that the accuracy of financial statements and of underlying and summary data are the responsibility of management; the audit opinion is that of the auditor. The Committee is responsible for oversight of management's financial reporting process and internal controls. Ms. Murphy presented an outline of PwC's communications plan with management and with the Committee. PwC is engaged by the Committee and ultimately reports to the Committee, not to management, in spite of the fact that much of its day-to-day interaction is with management.

Ms. Murphy referred to a summary of services provided to the University by PwC in 2009, independent of its opinions on financial statements. There is dialogue with the University throughout the year on accounting and business matters. In developing its audit strategy, PwC examines the overall control environment, the University's day-to-day operating processes to gather financial statement data. Those processes are the focus for examination and testing. The purpose of testing is to determine the reliability of controls. PwC is present at the University only during certain times of the year; the environment and tone set by management is important in responding to the risk of fraud.

Areas of audit emphasis which are financially significant and subject to judgment include the valuation and disclosures of investments and self-insurance reserves. The University is self-insured for workers' compensation liability and professional liability. PwC uses its own actuaries to evaluate the reasonableness of these reserves. The same is true of the University's benefit plans and post-retirement medical plans; PwC uses its own actuaries to evaluate the reasonableness of the assumptions in these plans. Other areas of emphasis are sponsored research and compliance with federal awards, and accounting for lease-type arrangements. The broad extent of facilities and land held by the University includes complex lease arrangements which must be accounted for correctly. In addition, it is important for the University to understand its relationships with other entities, such as the campus foundations, even if it does not legally own them. PwC advises the University on whether to include such entities in its financial statements under GASB.

Faculty Representative Simmons asked about the University's relationship with the limited liability companies which manage the Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL). Ms. Murphy responded that LANL and LLNL are audited using equity method accounting. They are audited separately.

Ms. Murphy then discussed some other audit considerations. One of these is the need to fund the UCRP. She observed that many other institutions are facing a similar situation at this time. PwC will examine the financial reporting implications of the resumption of contributions to the UCRP. GASB Statement 51 requires an understanding of how the University inventories and evaluates its intangible assets, but Ms. Murphy anticipated that it would not have a significant effect on UC's financial statements. GASB Statement 53 would have a greater effect on these financial statements, inasmuch as the University owns derivatives for investment purposes and in order to offset interest rate risk on debt.

Ms. Murphy concluded her presentation by calling attention to the large number of recurring team members on PwC's engagement team. There has been good continuity in PwC's work with the University.

Regent Bernal asked about the audit of Lawrence Berkeley National Laboratory (LBNL) as opposed to LANL and LLNL. Ms. Murphy responded that the University manages LBNL. The other Laboratories are audited separately.

Ms. Broome remarked that the continuity in PwC's engagement with UC is outstanding. This kind of continuity is not always found in work with a large public accounting firm, and it benefits the University.

Regent Stovitz asked about PwC's interaction with the UC internal audit program and if PwC regularly receives UC audit reports. Ms. Murphy responded that PwC does not rely on the University's internal audit program as a means of reducing its own work; it complements the internal audit program. PwC requests internal audit reports as they are completed. PwC attends campus audit committee meetings. If there are developments which are of interest to the financial statements, PwC pursues them. Ms. Murphy observed that the internal audit program is process-oriented. PwC operates at the higher level of financial statements. PwC also participates on the President's audit committee.

Committee Chair Ruiz called attention to the PwC fee proposal. Ms. Murphy recalled that, in May 2008, PwC was appointed as the Regents' external auditor for a three-year term. At that time, the Regents agreed to a three percent increase for the 2009 audit, a four percent increase for the 2010 audit, and a five percent increase for the 2011 audit. PwC forewent any increase in fees for 2009. For 2010, PwC was entitled to a four percent increase but requested only a two percent increase. This is an acknowledgment of the budgetary constraints experienced by the University.

Mr. Taylor noted that, with the departure of Assistant Vice President Plotts, who is leaving the Office of the President to take up a senior vice chancellor position at UC San Francisco, the University will be relying on PwC more than in the past.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, with Regents Bernal, De La Peña, Ruiz, Stovitz, Varner, and Zettel (6) voting "aye."

4. **ETHICS AND COMPLIANCE PROGRAM UPDATE**

[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.]

Associate Vice President and Chief Information Officer Ernst reported on the preliminary results of the third consecutive year of the University's information technology security self-assessment. He recalled the self-assessment which occurred the previous year and was reported to the Committee. The current data have not yet been fully reviewed by the campuses.

The self-assessment is carried out on the campuses and medical centers to determine the level of compliance with the key points of the University's information technology security policy. Some of the requirements of the policy are that each location have an information security officer; that each location have an information security plan; and that there be appropriate data protection and encryption measures. Mr. Ernst reported that there has been no deterioration of security in any area; however, there has also been no progress. Given the significant reductions in resources, maintenance of the existing level of security can be seen as positive news.

The University is now developing security awareness training to ensure that a baseline level of security awareness is established in each UC entity. Faculty, staff, and students employed by the University must know information security requirements and best practices. There will be collaboration with the Academic Senate to ensure faculty involvement. The University will form a committee to establish a training program which will likely be self-paced and Web-based. Mr. Ernst stated that he would provide more information to the Committee when this initiative is under way. One objective in this area, not yet attained, is to establish a UC systemwide standard for security awareness.

Mr. Ernst cited two other areas in which compliance with security policy has not yet been achieved: the mitigation of information security risks, and the collection, management, and analysis of log data. These are data which reveal whether there have been attempts to hack into University servers and computers. Collecting these data is not difficult, but the University could do a better job of analyzing and managing the data.

In discussions with Mr. Ernst, campus information security officers and chief information officers have expressed their concern that the University not engage an outside firm or experts to perform a survey which would merely repeat the self-assessment of the last three years. Mr. Ernst asked that the Committee consider seeking assistance for target areas where improvement is needed, rather than paying for an outside audit or review.

Faculty Representative Simmons alerted the Committee to faculty concerns about compliance training. Some faculty feel overburdened with compliance training programs. There might be resistance to a mandatory information security program. The University should strive to develop training that is interesting and useful.

Mr. Simmons asked about the frequency of intrusions or attacks on the University's information network. Mr. Ernst responded that about one-third of the serious incidents involve hacking. Almost half of the incidents concern human error or negligence, which underscores the importance of education and training. In the cases of purposeful intrusion, a significant problem is posed by servers outside the University's central information technology control. This occurs when computers are purchased on a contract or grant, or for a department, connected to the UC network, but not under UC information technology control. The University can expect to make progress in this area by bringing servers under central control.

Committee Chair Ruiz emphasized the importance of compliance and the risk of non-compliance. This has become an important focus for the Committee and is a trend in the business world at large. It is crucially important that the University's employees be ethical and honest. He asked Mr. Simmons to communicate this message to the Academic Senate.

Mr. Simmons expressed complete agreement regarding the importance of compliance. However, he cautioned that, if compliance becomes onerous enough to prevent work from being done, employees begin to see it as a burden and seek ways to avoid it; the mindset of working safely and securely can be lost. The University must take care to devise compliance programs that are meaningful and useful.

Deputy Compliance Officer Hilliard noted that the University is leveraging existing training on the campuses to facilitate compliance. She referred to a chart included in the item materials, a three-year comparison which showed a higher level of reporting of workplace misconduct by whistleblowers during the last year.

Committee Chair Ruiz referred to a chart displaying hotline reports by location and asked about a relatively high number of reports for UC Davis. Ms. Hilliard explained that locations with medical centers generally have experienced more training and have a higher rate of reporting.

5. **INTERNAL AUDIT SERVICES UPDATE**

[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.]

Systemwide Audit Manager Hicks presented a chart of the audit plan status, with completion statistics as of December 31, 2009 for audits planned for completion in the first two quarters of fiscal year 2010. He noted that the Office of Ethics, Compliance, and Audit Services (ECAS) had two audits planned but zero completed or finalized. The systemwide audit report has not been finalized; campus-level reports have all been finalized. He pointed out that the fiscal year for Lawrence Berkeley National Laboratory is on a different cycle; the numbers in the chart represent results for one quarter, not two.

Mr. Hicks then discussed charts showing the cumulative closure rate for Management Corrective Actions (MCAs) as of June 30, 2009 and as of December 31, 2009. There was not much change in the closure rate between these dates. There was a small decline in the percentage of high-risk closed MCAs, from 94 to 93 percent. This is to be expected, as the rate of closure increases toward the end of the fiscal year. Chief Compliance and Audit Officer Vacca added that the closure rate comparison would be more meaningful in July. In response to a question asked by Committee Chair Ruiz, she confirmed that there are no significant concerns in this area.

Mr. Hicks presented a slide showing audit activity by external agencies and organizations at the locations in the current fiscal year. Ms. Vacca called attention to the degree of activity at multiple campuses by the same agencies. UC audit staff are responding to external as well as internal demands. She noted audits carried out by the Centers for Medicare and Medicaid Services (CMS) at the medical centers for potential overpaid claims.

Committee Chair Ruiz asked about the number of external audits performed at the medical centers. Ms. Vacca responded that there have been several CMS reviews at the medical centers concerning payment, follow-up for medical care issues, and reimbursement. Audits by the National Science Foundation are most likely related to specific research grants.

Faculty Representative Simmons asked about audits performed by the California State Board of Equalization. General Counsel Robinson explained that the Board of Equalization is examining the transfer of research material to a third-party vendor by UC

San Francisco. After a process that involves recombinant DNA and gene sequencing, the material is returned to the campus. The Board of Equalization claims that this transfer of research material constitutes a sale. Such a determination would set a significant precedent, and the University is opposed to it.

Ms. Vacca pointed out some projected trends in external audit. Contracts and grants will always remain a focus of review; the University receives a large amount of federal funding for research. A recurring theme in the external reviews has been travel costs.

Mr. Simmons asked about the extent and seriousness of time and effort reviews. Ms. Vacca responded that the National Science Foundation (NSF) is performing time and effort audits nationwide and finding similar deficiencies. The situation at UC reflects national patterns regarding documentation and allocation of time and effort. PricewaterhouseCoopers representative Joan Murphy remarked on the complexity of review by the NSF. The concept of effort reporting is fairly nebulous. There have not been recent significant developments regarding effort reporting, but it will remain an area of focus. Ms. Vacca noted that the University is examining various approaches to time and effort reporting. Mr. Simmons noted that time and effort reporting is burdensome for faculty, but that failure to comply would be catastrophic for the University. Committee Chair Ruiz concurred.

6. RISK PRIORITIZATION PROCESS

[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.]

Systemwide Audit Manager Hicks presented a risk assessment and audit planning timeline. Currently, each UC location is carrying out risk assessment discussions and gathering information in order to develop the audit plan for this year. The campuses' draft audit plans for the next fiscal year will be submitted to the Office of Ethics, Compliance, and Audit Services (ECAS) at the end of March. These plans will then be reviewed by the President's audit committee and this Committee. During the period from April to June, the campuses will have the opportunity to reassess their plans. Mr. Hicks observed that risks can change during this three-month period.

UC Berkeley Internal Audit Director Wanda Lynn Riley discussed the risk assessment process at the Berkeley campus. Data gathering and analysis take place throughout the year. Interviews with management and staff focus on relevant risk issues and situations experienced by peer organizations which may become relevant to the Berkeley campus in the future. The risk assessment process includes surveys, campus risk assessments, financial analysis at a high level, trend analysis, and research on emerging issues.

Risk assessment takes into account factors including political and public sensitivity; at UC Berkeley, this pertains to the student code of conduct, the athletic program, and human and animal subject research. Ms. Riley enumerated other issues of concern for the campus: extramural funding, data security and privacy, real estate taxation, information security breaches, and business exposure for various activities on campus.

Internal and external factors contribute to risk. Internal factors include reduced staffing, changes in the segregation of duties, implementation of new systems, clustering of administrative activities, staff attitude, and internal control processes. External factors include a greater expectation of transparency and accountability and regulations concerning the University's engagement of contractors.

The Berkeley campus develops a draft audit plan in March and a final plan in June. Ongoing risk monitoring also occurs. There are quarterly meetings with the vice chancellors and bi-weekly meetings with various risk managers, controllers, the chief of police, and others. The internal audit program is represented on a policy committee and so is made aware of new policies when they are implemented. The program sets aside about ten percent of its budget for supplemental audits, to address urgent matters that may arise during the course of the year.

Regent Stovitz asked about how, once a high-risk area is identified, this information is communicated to senior campus officials who have decision-making authority and can make changes if necessary. Ms. Riley responded that campus audit reports include two components: the analysis of issues and management response. High-risk issues are brought to the attention of a vice chancellor. The completion of Management Corrective Actions is discussed at quarterly audit meetings, and senior managers are informed. Chief Compliance and Audit Officer Vacca added that she receives all audit reports from the campuses; significant audits in key business areas are shared with appropriate administrators. This information is also presented to the President's audit committee, and, if necessary, to this Committee.

7. **RISK SERVICES UPDATE**

[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 Risk Officer Crickette presented information on enterprise risk management. The Enterprise Risk Management Program focuses on four areas: reducing the cost of risk; reducing the cost of borrowing, which involves discussions with rating agencies; creating efficiency; and reducing information technology redundancy. As an example, the production of reports for Statement on Auditing Standards (SAS) 115 is a paper-driven process requiring a great deal of administrative time on campuses; it will now be automated.

Ms. Crickette then discussed the cost of risk. This cost includes retained losses, excess premium, administrative costs such as broker fees and third-party administrative fees, and targeted loss prevention efforts. She presented a chart displaying a reduction in the cost of risk from $18.56 per $1,000 of operating budget in fiscal year 2003-04 to $13.31 in fiscal year 2009-10. Risk has declined as well. The chart also displayed a total including an actuarial best estimate for indirect costs; this total is about twice as great as the total for direct costs.

The University achieves savings by focusing on loss prevention and loss control programs, educating the owners of risk and providing them with tools to better manage their units. Ms. Crickette presented another chart showing the average cost of single claims over the past four years for automobile, general liability, workers' compensation, professional liability, and employment practices liability. The average cost of an employment practices liability claim is $120,000. Significant savings could be achieved in this area, particularly at the department level.

The Enterprise Risk Management Program provides resources to better manage employment claims and workers' compensation claims, among other topics, and contact information for assistance with risk issues. In addition, the Enterprise Risk Management Information System (ERMIS) provides tools for risk assessment. One risk assessment tool has been developed for libraries and collections. ERMIS has enabled surveys of integrated safety and environmental management and fire protection. Information from surveys and other sources can be displayed on dashboards in a timely manner, allowing employees to manage risk strategically. For a campus in a time of budgetary constraints, dashboard reporting allows quick determination of which departments are most in need of resources.

At all UC locations, most injuries to employees are caused by moving, pushing, and pulling objects. Environment, Health and Safety directors have formed work groups to address this and other significant risk areas. The effect of the University's effort to reduce injuries has been dramatic. The annual number of injuries has declined from 8,053 in fiscal year 2004 to 4,947 projected for fiscal year 2010, a reduction of close to 50 percent.

Ms. Crickette then turned to program costs. She pointed out that only about eight percent of the University's claims are litigated. Other costs include excess premium, third-party administrative costs, loss prevention program costs, and the cost of the Office of Risk Services staff.

There has been an increase in frequency and severity in the University's general liability program. In part, this increase is due to improved loss reporting practices at the campuses. The Be Smart About Safety program and other programs are being expanded to address this challenge.

Ms. Crickette presented a chart displaying general liability and employment practices liability program costs. The University has expanded its employment practices liability program to include non-litigated employment practices claims, which number approximately 50 annually. General Counsel Robinson observed that UC employment practices liability has experienced a flat rate in the last 18 months, a period of restructuring when a great deal of employment liability activity would be expected.

Regent De La Peña asked if the general liability and employment practices liability program costs shown in the chart represented in-house funds that the University has, or monies paid to insurance companies. Ms. Crickette responded that these costs are retained losses which can be either paid or reserved, based on actuarial studies. The costs include excess insurance premiums and third-party administrative costs.

Regent De La Peña asked about a situation in which the University does not spend the entire amount of program costs in a given fiscal year. Ms. Crickette responded that claims can take a long time to close. General liability and employment practices liability claims can take five years to be resolved, particularly if the claimant has legal representation. Outside actuaries, independent of the University, make a judgment regarding the amount the University needs to set aside for claims incurred and for claims incurred but not recorded. A separate actuarial study is performed for each risk management program.

Regent De La Peña asked where monies are applied if the University does not spend the entire amount of program costs. Ms. Crickette noted that the UC workers' compensation program outperformed the actuarial projection in fiscal year 2007 and was able to refund $32.4 million to the campuses. The University refunded $37.022 million to the campuses in fiscal year 2008, and $37.063 million in fiscal year 2009. At the same time, UC was able to reduce the program rates. The University has not yet achieved a surplus in its other risk management programs.

Chief Compliance and Audit Officer Vacca asked if a formula is used for this reallocation to the campuses. Ms. Crickette answered in the affirmative. The actuarial determination of the refund is based on the campus' or medical center's exposure or loss experience.

In response to a question asked by Regent De La Peña, Ms. Vacca and Ms. Crickette confirmed that surplus funds are returned to the campuses; the Office of the President does not receive any of this funding.

Committee Chair Ruiz requested information on how these surplus funds are redistributed to the campuses. Ms. Crickette responded that this information is available. She noted that the refund is different for campuses and medical centers. Campuses may use these refunds to invest in loss prevention and safety programs.

Ms. Crickette then presented a chart showing an increase in automobile program costs, which reflected improved reporting. Prior to 2009, a large percentage of automobile losses were not reported. At the campuses, damaged vehicles were repaired with funds other than automobile insurance. This practice has been corrected through education and training. Nevertheless, there have been some severe losses. The University has put strategic, targeted studies and programs in place to address these large losses. A systemwide group is examining this issue. The University has developed driver training standards and is implementing best practices, driver training programs, backup alarms, and cameras in buses.

Property and other insurance program costs also showed an increase. Previously there was poor reporting; now all losses are reported. The University has also experienced an increase in its insurance costs because, in some cases, its buildings have not been appraised in over 20 years. This has also been the case with the University's fine arts and library collections, which have increased in value.

Ms. Crickette commented on a chart showing increases in professional medical and hospital liability program costs. In 2004, the University had 490 claims in this area; 336 claims are projected for fiscal year 2010. The number of losses has decreased, but costs have increased. Most of these losses involve the provision of lifetime medical care. Relative to the increased exposure of this program, the greater number of physicians and patients, the cost of the program has decreased by 30 percent since 2005. However, the actual costs for the campuses and medical centers are increasing.

Ms. Crickette then discussed the University Controlled Insurance Program (UCIP). The University saves money by self-insuring. In the area of construction, the University self-insures for builder's risk, applicable during the construction of a building. However, it previously did not insure for contractors' general liability and workers' compensation. The contractors would purchase this insurance themselves and pass the costs on to the University. The UCIP now reduces the University's cost by 40 to 60 percent, compared to the contractors' cost, depending on the claims that occur on the job. It includes offsite construction coverage, which is less costly than onsite coverage. Ms. Crickette observed that it is not easy to obtain this kind of coverage from insurance carriers, but the University was able to leverage the market. The UCIP will also help to reduce the number of construction-related lawsuits. There is one policy for all contractors and subcontractors for every project over $25 million. The UCIP went into effect on January 1, 2010.

Catastrophic and emerging risks have received attention in the media recently. The Office of Risk Services focuses on best practices of crisis communication and mission or business continuity planning. The University has developed an award-winning continuity planning tool, UC Ready, an open source software program. It has been used by over 80 universities and colleges and the American Red Cross has expressed interest in it. Over the past six months, 819 UC departments have completed mission continuity plans. Ms. Crickette expressed confidence in the University's emergency planning.

All but one campus have completed an enterprise risk management maturity model. Ms. Crickette described this model as a catalogue of campus activities undertaken to identify and manage risk.

Committee Chair Ruiz noted that Committee members had received a report providing an update on the payroll personnel system. Chief Financial Officer Taylor added that the University is now entering the next phase of this project, mapping the payroll process at the Riverside, Berkeley, and Los Angeles campuses.

8. **POTENTIAL LITIGATION, DISABILITY DISCRIMINATION**

Committee Chair Ruiz announced that this item would be deferred.

The meeting adjourned at 3:05 p.m.

Attest:

Secretary and Chief of Staff