

The Regents of the University of California

COMMITTEE ON COMPLIANCE AND AUDIT

January 23, 2014

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

Members Present: Regents Blum, De La Peña, Feingold, Flores, Makarechian, Ruiz, Schultz, and Zettel; Ex officio members Lansing and Varner; Advisory member Gilly; Staff Advisors Barton and Coyne

In attendance: Regents Gould, Island, Kieffer, Napolitano, Pattiz, Reiss, and Sherman, Regents-designate Engelhorn, Leong Clancy, and Saifuddin, Faculty Representative Jacob, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Brown, Duckett and Lenz, Chancellors Blumenthal, Desmond-Hellmann, Katehi, Wilcox, and Yang, and Recording Secretary Johns

The meeting convened at 11:15 a.m. with Committee Chair Zettel presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of November 12, 2013 were approved.

2. INTERNAL AUDIT ACTIVITIES REPORT

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Chief Compliance and Audit Officer Vacca called attention to important areas of focus in the report on internal audit activities, covering audits conducted since the beginning of the new fiscal year: these were the control areas of cash handling, segregation of duties, training, and insufficient documentation. The University was recruiting for one open internal audit director position at UCSF.

Committee Chair Zettel praised the increased productivity of the internal audit program, shown by a volume of 102 reports compared to 64 reports at the same time the previous year. Ms. Vacca responded that the program had made efforts to ensure that the previous year's audits were completed in a timely manner; this most likely accounted for the increased productivity.

Committee Chair Zettel noted that the State was conducting an audit of the handling of sexual harassment and sexual violence incidents at UC Berkeley and UCLA. She asked that the results of this audit be presented to the Committee.

3. **ETHICS AND COMPLIANCE ACTIVITIES REPORT**

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Chief Compliance and Audit Officer Vacca presented a chart illustrating a large number of compliance matters and relevant regulatory agencies that affect the University. She noted that UC's efforts to improve campus climate and safety raised many complex issues.

4. **AMENDMENT OF INTERNAL AUDIT CHARTER**

The Senior Vice President – Chief Compliance and Audit Officer recommended that the Internal Audit Charter be amended as shown in Attachment 1.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Chief Compliance and Audit Officer Vacca explained that an amendment of the Internal Audit Charter was being proposed, to represent more accurately the partnership with management and to add a vision statement.

Committee Chair Zettel referred to the “Independence and Reporting Structure” section of the Internal Audit Charter, which stated that the Senior Vice President – Chief Compliance and Audit Officer has a direct reporting line to both the Regents and the President. Committee Chair Zettel expressed her own and Regent Makarechian's wish that this be amended, clarifying that the Chief Compliance and Audit Officer has an independent reporting line directly to the Board, not through the President. She pointed out that while the Board has an excellent relationship with the President, the University needed a policy for the future that ensures that the role of the Chief Compliance and Audit Officer is an independent one, with direct reporting responsibility to the Board of Regents.

Regent Makarechian emphasized the importance of maintaining the independence of the Chief Compliance and Audit Officer, who is responsible for reporting directly to the Board on any relevant matter. Ms. Vacca expressed agreement with Regent Makarechian and stressed that she understood the importance of her position's independent reporting to the Board.

Regent De La Peña suggested that action on this item be postponed to a later meeting, with time to amend the relevant language in the Charter.

Committee Chair Zettel agreed to defer the item and asked that this matter be brought back to the next meeting.

Regent Feingold requested a report at a future meeting on the status of the UC systemwide response to the Moreno report.

The meeting adjourned at 11:25 a.m.

Attest:

Secretary and Chief of Staff

Proposed Revisions to Internal Audit Charter

Additions shown by underscoring; deletions shown by strikethrough

Internal Audit Charter

(Charter Revised May 2011, Vision and Mission Sections Revised January 2014)

Policy Statement

It is the policy of the University of California to maintain an independent and objective internal audit function to provide the Regents, President, and campus Chancellors with information and assurance on the governance, risk management and internal control processes of the University. Further, it is the policy of the University to provide the resources necessary to enable Internal Audit to achieve its mission and discharge its responsibilities under its Charter. Internal Audit is established by the Regents, and its responsibilities are defined by The Regents' Committee on Compliance and Audit as part of their oversight function.

Vision

UC Internal Audit will be a universally recognized knowledgeable, collaborative and trusted resource on governance, risk management and control.

Mission

The mission of the University of California (UC) internal audit ~~program~~ (IA) is to provide the Regents, President, ~~and~~ campus Chancellors, and Laboratory Director independent and objective assurance and consulting services designed to add value and to improve operations. ~~It does~~ We do this by assessing through communication and monitoring collaboration with management to assist the campus community in the discharge of their oversight, management, and operating responsibilities. ~~Internal audit~~ IA brings a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

Authority

IA functions under the policies established by the Regents of the University of California and by University management under delegated authority.

IA is authorized to have full, free and unrestricted access to information including records, computer files, property, and personnel of the University in accordance with the authority granted by approval of this charter and applicable federal and state statutes. Except where limited by law, the work of IA is unrestricted. IA is free to review and evaluate all policies, procedures, and practices for any University activity, program, or function.

In performing the audit function, IA has no direct responsibility for, nor authority over any of the activities reviewed. The internal audit review and approval process does not in any way relieve other persons in the organization of the responsibilities assigned to them.

Independence and Reporting Structure

To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, internal auditors will be independent of the activities they audit. This independence is based primarily upon organizational status and objectivity and is required by external industry standards.

The Senior Vice President - Chief Compliance and Audit Officer (CCAO) has direct line reporting to both The Regents and the President. For administrative logistics, the CCAO has a dotted reporting line to the Executive Vice President – Business Operations. The CCAO has established an active channel of communication with the Chair of The Regents' Committee on Compliance and Audit, as well as with campus executive managements, on audit matters. The CCAO has direct access to the President and The Regents' Committee on Compliance and Audit. In addition, the CCAO serves as a participating member on all campus compliance oversight/audit committees.

Campus/Laboratory Internal Audit Directors (IADs) report administratively to the Chancellor/Laboratory Director (or designate) and directly to The Regents' Committee on Compliance and Audit through the CCAO. IADs have direct access to the CCAO and to the President or The Regents' Committee on Compliance and Audit as circumstances warrant.

Campus IADs will report periodically to the campus compliance oversight/audit committees on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work; the status of the annual audit plan, and the sufficiency of audit resources. The local audit functions will coordinate with and provide oversight of other control and monitoring functions involved in governance such as risk management, compliance, security, legal, ethics, environmental health & safety, external audit, etc.

IADs may take directly to the respective Chancellor or Laboratory Director, the CCAO, the President, or The Regents matters that they believe to be of sufficient magnitude and importance. IADs shall take directly to the CCAO who shall report to the President and The Regents' Committee on Compliance and Audit Chair, any credible allegations of significant wrongdoing (including any wrongdoing for personal financial gain) by or about a Chancellor, Executive Vice Chancellor or Vice President, or any other credible allegations that if true could cause significant harm or damage to the reputation of the University.

If Chancellors/Laboratory Director, when pursuant to their re-delegation authority, designate a position to whom the IAD shall report, that position shall be at least at the Vice Chancellor/Deputy Laboratory Director level and the Chancellor/Laboratory Director shall retain responsibility for: approval of the annual audit plan; approval of local audit committee/work group charter; and shall meet with the IAD at least annually to review the state of the internal audit function and the state of internal controls locally. When reporting responsibility is re-delegated, IADs also have direct access to Chancellors/Laboratory Directors as circumstances warrant.

Scope of Work

The scope of IA work is to determine whether UC's network of risk management, control, and governance processes, as designed and represented by management at all levels, is adequate and functioning in a manner to ensure:

- Risk management processes are effective and significant risks are appropriately identified and managed.
- Ethics and values are promoted within the organization.
- Financial and operational information is accurate, reliable, and timely.
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's risk management and control processes.
- Significant legislative or regulatory compliance issues impacting the organization are recognized and addressed properly.
- Effective organizational performance management and accountability is fostered.
- Coordination of activities and communication of information among the various governance groups occurs as needed.
- The potential occurrence of fraud is evaluated and fraud risk is managed.
- Information technology governance supports UC strategies and objectives.

Opportunities for improving management control, quality and effectiveness of services, and the organization's image identified during audits are communicated by IA to the appropriate levels of management.

Nature of Assurance and Consulting Services

IA performs three types of projects:

Audits – are assurance services defined as examinations of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples include financial, performance, compliance, systems security and due diligence engagements.

Consulting Services – the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include reviews, recommendations (advice), facilitation, and training.

Investigations – are independent evaluations of allegations generally focused on improper governmental activities including misuse of university resources, fraud, financial irregularities, significant control weaknesses and unethical behavior or actions.

Mandatory Guidance

IA serves the University in a manner that is consistent with the standards established by the SVP/CCAO and acts in accordance with University policies and *UC Standards for Ethical Conduct*. At a minimum, it complies with relevant professional standards, and the Institute of Internal Auditors' mandatory guidance including the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

Certain Personnel Matters

Action to appoint, demote or dismiss the SVP/CCAO requires the approval of The Regents. Action to appoint an IAD requires the concurrence of the SVP/CCAO. Action to demote or dismiss an IAD requires the concurrence of the President and Chair of the Compliance and Audit Committee, upon the recommendation of the SVP/CCAO.