

The Regents of the University of California

**COMPLIANCE AND AUDIT COMMITTEE**

September 14, 2016

The Compliance and Audit Committee met on the above date at the Luskin Conference Center, Los Angeles campus.

Members Present: Regents Brody, De La Peña, Elliott, Makarechian, Newsom, Sherman, Varner, and Zettel; Advisory members Chalfant and Monge; Chancellor Gillman

In attendance: Assistant Secretary Lyall, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Executive Vice President and Chief Operating Officer Nava, Vice President Andriola, Interim Vice President Handel, Chancellor Blumenthal, Chief Deputy General Counsel Petrulakis, and Recording Secretary Johns

The meeting convened at 1:15 p.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 the Committee on Compliance and Audit of July 19, 2016 were approved.

2. **OVERVIEW OF COMMITTEE RESPONSIBILITIES AND REVIEW OF COMMITTEE CHARTER**

[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.]

Committee Chair Zettel drew attention to the fact that the Compliance and Audit Committee now had additional responsibilities, in particular litigation and legal issues. Along with finance committees, audit committees play an essential role at public institutions in the U.S. She asked that the Committee keep in mind certain issues as it planned its agenda for the upcoming year: approval of the University's compliance and internal audit plans, cyber security, finance and compliance, litigation and settlement issues, appointment of UC's external auditor, and operational risks for the entire UC system.

Regent Makarechian referred to language contained in most of the new Committee charters, including the charter of the Compliance and Audit Committee: "The assignment of responsibility to this Standing Committee under Paragraphs C and D signifies that it is the Committee to which matters otherwise appropriate for Board consideration generally will be referred and does not create an independent obligation to present a matter to this Standing Committee or its Subcommittee, to the Board or to any other Committee." He

stressed that the Compliance and Audit Committee must retain independence and must examine certain matters which should not be reassigned to another committee. For this reason, the Compliance and Audit Committee Charter should not contain this language. Chief Deputy General Counsel Petrulakis responded that this language could be reexamined. Committee Chair Zettel asked that this matter be brought back for further discussion.

3. **ANNUAL REPORT ON ETHICS AND COMPLIANCE ACTIVITIES 2015-16**

[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.]

Deputy Compliance Officer David Lane outlined some highlights of the Annual Report on Ethics and Compliance Activities, noting that the University must comply with regulations from over 270 external agencies. He described the annual compliance report process and its systemwide ramifications. Areas of focus in the report were privacy and information security, sexual violence and sexual assault, UC Presidential policies, staff training, and export control.

Committee Chair Zettel asked how the Ethics and Compliance program was addressing attrition, staff turnover, and training for new staff. UC Santa Cruz Vice Chancellor Sarah Latham underscored UC's significant effort in recent years to ensure that all new employees receive training in areas such as cyber security and sexual assault prevention, and that training is offered in multiple formats and languages.

Chancellor Gillman observed that one good feature of UC's compliance training is that some training is required for all employees, while employees with certain specific responsibilities receive training for these areas. Chief Compliance and Audit Officer Vacca articulated the need for compliance training to be meaningful and role-specific.

Faculty Representative Chalfant stated that faculty and staff should be involved in training content development and provide input. Compliance training programs are all implemented for the right reason, but some training materials are better than others.

Staff Advisor Valdry observed that UC staff members often report that required compliance training programs do not pertain to their jobs, and this can cause confusion. Training must be relevant to an employee's role and training requirements must be kept manageable.

Ms. Latham discussed the Santa Cruz campus' approach to risk sensing. In the past this approach had been rather splintered, making it hard to gain an overview of risk across the campus and to ensure that mitigation and monitoring activities were effective. UCSC set itself a goal of becoming a risk-intelligent organization, where risk sensing activities are continual and coordinated across organizational units, risk discussion is embedded in planning, there are early warning systems to indicate how well risk is being managed, and there are ways of rewarding compliance. She outlined the campus' risk sensing process:

collecting feedback from risk committee members, internal audit interviews which feed into an integrated risk register, an annual risk intelligence survey, and an updating of prior-year priorities. UCSC has developed predictive indicators and holds monthly strategic communications meetings with campus leadership to ensure coordination of the campus approach to address risk. Ms. Latham discussed scenario planning, contemplating risks that may arise in the future, and the integration of the internal audit unit in risk sensing activities. Among the lessons learned at UCSC is that a multifaceted approach to risk intelligence is effective.

Regent Makarechian observed that most Management Corrective Actions fall into a small number of topic areas. He noted that mandatory training programs for employees can be boring, and suggested using a concentrated, summary approach. Ms. Latham concurred about the value of simplicity and clarity, the value of employees' time, and the need for effective and relevant training materials, and presented examples of UCSC's efforts to work in that direction. Risk intelligence must be nimble. She voiced the need to provide some reward for training.

Regent Makarechian asked if there would be a focus on reward or punishment, questioning how else one could motivate employees to complete training. Ms. Latham responded that at some point, there must be consequences for employees who do not complete mandatory training. Ms. Vacca added that while the Ethics and Compliance program does not wish to take on the role of police officer, there may be difficult individuals who will not proceed with training otherwise.

Regent Makarechian asked if training materials were different for employees in different roles. Ms. Vacca responded that some training is mandated by outside agencies. For its own mandated training programs, UC has been working to make this training pertinent to individuals. The recently deployed cyber security training was uniform for all UC employees. Future training materials would be more variegated and targeted. Ms. Latham added that UCSC found low rates of training compliance among its dining services employees, due to the fact that many of these employees do not use their campus email accounts, work odd shifts, or speak English as a second language. For these employees, training was conducted in person. Ms. Vacca stressed the importance of local accountability.

Regent Makarechian asked if guidelines for training come from the Office of the President or a campus. Ms. Vacca responded that this depends on the training program; some are State-mandated, others initiated by UC. The University tries to provide different methods of delivery for training.

Executive Director Elizabeth Boyd discussed international compliance and the risk associated with UC's extensive international activities, which take place in a complex regulatory environment. It can be challenging for faculty, students, and staff to find relevant information on issues such as visas, insurance, and transporting research equipment.

Regent Makarechian asked if UC has emergency alert systems for UC affiliates traveling abroad and an updated list of locations of UC affiliates, underscoring concern about students in particular. Ms. Vacca responded that the Office of Risk Services has a program for UC travel abroad, and that there would be a presentation on this at the November meeting. Ms. Boyd noted that student activities abroad are well organized and closely monitored and tracked. Ms. Vacca observed that it may be more difficult for UC to track the whereabouts of faculty and staff abroad, especially if they have not used UC systems to make their travel arrangements.

Committee Chair Zettel asked about the most severe violations that might be committed by a UC affiliate abroad. Ms. Boyd responded that when UC collaborates with a foreign partner and U.S. dollars flow to a foreign entity, the University is required by law to screen recipients and determine if they are restricted parties, on a U.S. government list, and prevented from receiving U.S. funds. The Office of Ethics, Compliance and Audit Services has made a tool available to the campuses called Visual Compliance, which allows one to screen entities such as corporations, foundations, and non-governmental organizations, and individuals. This tool is also used for export compliance.

Regent Makarechian asked about tools for researchers traveling and transporting research equipment within the U.S. Ms. Boyd responded that the University has relevant checklists and information sheets, for example for researchers who want to ship biological samples to other institutions. Committee Chair Zettel asked if this was related to the question of dual use research. Ms. Boyd responded that it could be in some circumstances; biological samples might represent biohazards in any case. She concluded the discussion by reporting that the University had developed a web portal, UCGO, providing relevant information on international activities for faculty, staff, students, and UC visitors and foreign collaborators. The portal would be up and running in a few weeks.

#### 4. **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 briefly recalled the role of UC's Internal Audit program. Issues raised in this report were financial management, information technology security, cash handling, and medical billing.

Committee Chair Zettel asked about fraud and the consequences for employees who steal from UC. Ms. Vacca responded that there are disciplinary actions in all cases, based on the nature of the incident. She asserted that fraud can be grounds for termination of an employee.

## 5. UPDATE ON STATE AUDIT ACTIVITY

[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.]

Deputy Audit Officer Matthew Hicks explained that any legislator can submit a request for a California State audit of the University to the Joint Legislative Audit Committee (JLAC). The State Auditor prepares an analysis of the audit request including proposed scope, objectives, and estimated hours and cost. The proposal is then reviewed for approval by JLAC. The State Auditor would then send a notification to the University regarding audit subject, scope, and schedule. Once the audit is scheduled, the State Auditor holds an entrance conference with the University. During the fieldwork, the State Auditor typically conducts multiple on-site visits and meets with UC staff. When fieldwork is complete the State Auditor holds an exit conference with UC, provides a preliminary draft report, and receives UC feedback. The State Auditor then provides a formal draft report; the University has five business days to respond to the report recommendations. The final report includes UC's responses. Following issuance of the final report, the State Auditor requests periodic updates on the status of the recommendations.

Regent Makarechian asked if the State Auditor must provide a reason for requesting an audit. Mr. Hicks responded that this reason is stated in a letter from the legislator who requested the audit. Usually, legislators want more information on UC operations.

Regent Makarechian asked about the cost to UC of this process and suggested that UC should document this cost. Ms. Vacca responded that the University anticipated that significant time and effort would be expended on two upcoming State audits, and that UC would track the costs on these audits.

Committee Chair Zettel suggested that when UC reports audit findings required by the State, the University should inform JLAC about the cost to UC to provide that information.

Regent Makarechian asked if the number of State audits per year can be unlimited. Ms. Vacca responded that there is no limit. The process is driven by JLAC or the interest of parties requesting the audits.

Regent Newsom referred to information presented about one of the upcoming State audits, of contracted employees and contracting practices, that was estimated to require 3,200 State Auditor hours. He asked how many UC employees and how much UC time might be involved in working on this audit. Ms. Vacca responded that UC might spend three times this number of hours responding to this audit request. The information sought by the State Auditor is not located in a central place and is not all in electronic format, which adds to the time required to retrieve it.

Regent Newsom asked if some of the information being requested in this audit might already be available or have already been retrieved in a previous audit. Ms. Vacca responded that this was possible. There had not yet been initial meetings with the State Auditor to discuss the new audits.

Regent Newsom asked when these audits might be completed. Mr. Hicks responded that the State Auditor had not yet provided an end date. Ms. Vacca added that these audits would begin in the current fall season; she anticipated that they would be completed by spring 2017.

Regent Sherman emphasized the magnitude of the amount of time, 3,200 hours, to be spent on only one audit, estimating that this would represent the effort of one full-time employee for a year-and-a-half. Ms. Vacca stressed that many UC employees are involved in work and coordination of such an audit, and that the audit involves more than just responding to a request for documents. Regent Sherman asked if this State audit might be a duplication of work being done for the University by PricewaterhouseCoopers. Ms. Vacca responded that this was possible.

Regent Makarechian asked how many audits like these the State Auditor typically requests per year. Ms. Vacca responded that over the past eight years, there had typically been one such audit a year, but that recently State Auditor activity had increased, even doubling.

Regent Makarechian asked if this increase reflected a bad relationship with the State Auditor. Ms. Vacca noted that the University, at its meetings with the State Auditor, has made the case for avoiding duplication of effort. She stated her view that the second upcoming State audit, on administrative expenditures at the Office of the President, would probably include information that had been gathered in previous audits.

Regent Brody asked if the first-mentioned State audit regarding contracted employees and contracting practices was related to Senate Bill 959, currently in process. Committee Chair Zettel responded that the State Government Relations office could provide information on this.

Regent Elliott observed that State funding for State audits is managed outside the normal budget process. He described the number of potential State audits as almost unlimited. Virtually every State agency, and some local agencies, have been audited by the State Auditor. In this context, UC must consider its relationships with the Legislature. Committee Chair Zettel asked the Regents to bring suggestions to Ms. Vacca on how to enhance and build relationships with legislators.

Ms. Vacca commented on the transparency of the University's completed audits and how this information is available to the public.

Regent Sherman asked about the State audit of UC Davis' strawberry breeding program, listed in the background materials. Mr. Hicks responded that this audit pertained to

intellectual property and UC Davis' contractual relationships with local strawberry breeders.

The meeting adjourned at 2:35 p.m.

Attest:

Secretary and Chief of Staff