The Regents of the University of California

COMPLIANCE AND AUDIT COMMITTEE
May 23, 2018

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

Members Present: Regents Anguiano, Elliott, Lemus, Makarechian, Newsom, Tauscher, and Zettel; Ex officio member Kieffer; Advisory members Anderson, Graves, and White; Chancellors Gillman and Yang; Staff Advisor Valdry

In attendance: Regents Napolitano, Park, and Sherman, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Bustamante, Provost Brown, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Executive Vice President Stobo, and Recording Secretary Johns

The meeting convened at 10:15 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 March 14, 2018 were approved.

2. **REGENTS POLICY ON USE OF THE UNIVERSITY'S EXTERNAL ACCOUNTING FIRM**

The President of the University recommended that the Regents adopt a Regents Policy on Use of the University's External Accounting Firm 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.]

Associate Vice President Peggy Arrivas recalled that the Sarbanes-Oxley Act of 2002 sets requirements regarding the use of external accounting firms by public companies. While the University is not subject to the Sarbanes-Oxley Act, the Regents found the Act provisions to be best practices and in November 2002 adopted procedures that align with the Sarbanes-Oxley Act. In concert with the recent review of Bylaws, Committee Charters, and Regents policies, this item recommended that the November 2002 action be codified as a Regents policy. The proposed policy language followed the language of the November 2002 action.

In response to a question by Committee Chair Zettel, Ms. Arrivas confirmed that codifying this language as a policy would give it more strength.

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

3. **DRAFT INTERNAL AUDIT PLAN FOR 2018-19**

[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 Bustamante began the discussion with comments on how the draft internal audit plan is created. For several years, Ethics, Compliance and Audit Services (ECAS), the Office of the General Counsel, and Risk Services have been working collaboratively to align and coordinate the risk assessment process as each office develops its annual work plan. This year, for the first time, the annual risk assessment process was launched with a joint communication from the three offices to the campuses to ensure that the campuses are receiving consistent guidance and to reinforce the importance of a coordinated and collaborative process. Mr. Bustamante reported that he had been meeting regularly with the other two offices to share information on emerging risks and identify opportunities to address those risks. These efforts ensure awareness of current risk issues, appropriate allocation of resources, coordinated service to the campuses, and avoidance of duplication of effort.

Systemwide Deputy Audit Officer Matthew Hicks explained that the draft Internal Audit Plan for 2018-19 was a consolidation of planned audit and advisory services projects identified by internal audit departments at the campuses, Office of the President, and Lawrence Berkeley National Laboratory. The audit plan is designed to improve the effectiveness of campus governance, risk management, and control processes, assist campus leadership in the discharge of their oversight, management, and operating responsibilities, and address the University's significant financial, operational, and compliance risks. Development of the plan was based on a comprehensive risk assessment process. All UC locations follow a consistent methodology in prioritizing and rating risks. The annual risk assessment process typically begins in January. Internal sources are solicited through interviews and surveys. The process also takes account of external sources, such as industry trends, external audits, and regulatory developments. During this process, ECAS facilitates periodic calls between internal audit directors to share information on themes emerging from the risk assessment process. The process results in a prioritized list of risk areas and corresponding audit and advisory projects to address them at the campus and systemwide levels.

Mr. Hicks described the plan's focus on strategic alignment, the effort to align elements of the internal audit plan with the strategic priorities of the institution, such as research, academic excellence, cybersecurity, and innovation and entrepreneurship. ECAS has oriented its risk assessment discussions toward management priorities. He then presented a chart showing the planned projects broken down by functional area, indicating the breadth of the risk areas to be covered. Over half of the planned project hours were allocated to three functional areas: health sciences operations, information technology, and financial management. Viewing the audit plan in this manner allows one to ensure that the plan aligns with the results of the risk assessment process and that UC is investing in the appropriate subject matter expertise in the execution of these projects. The University has dedicated healthcare auditors, information technology auditors, and certified public accountants to address risks in these areas. Where necessary, UC may also contract with third parties for additional specialized subject matter expertise. Mr. Hicks concluded with a chart showing common internal audit themes. Some were themes of systemwide audits, such as executive compensation, outside professional activities, and the UC Fair Wage/ Fair Work plan. Other themes reflected risk areas that had been prioritized by multiple campuses, such as controlled substances, business continuity planning, third-party relationships, and mental health.

Regent Anguiano referred to one topic included in the plan, the testing of financial sustainability at the campus unit level, and asked about the role of the relevant school and campus in association with this type of testing. Mr. Hicks responded that campuses periodically perform financial and operational audits of their departments and typically review how recently they have audited departments. This audit item was a comprehensive financial review at the departmental level that would focus on operational risk and the financial health of specific departments, and include transaction reviews and assessments of any fund balance deficits. At the campus level, ECAS examines the effectiveness of monitoring systems.

Regent Makarechian asked about processes to address conflict of interest issues in UC Health, and why some campuses and not others had been selected for construction/capital programs audits. In response to the second question, Mr. Hicks explained that not all campus audits were listed in the background material. In response to the first question, Mr. Bustamante recalled that working groups with representatives from the Office of the General Counsel and UC Health have examined conflict of interest issues. Within ECAS, the Compliance services section was focused on this effort, working with healthcare compliance officers and campus chief ethics and compliance officers to examine the issue not only with regard to UC Health, but with regard to any UC relationship with vendors, or strategic partnerships that could give rise to a conflict of interest or commitment. The Compliance team was seeking to address this issue with education, investigations, partnerships with campuses, and targeted audits, in conjunction with the Internal Audit program.

Regent Makarechian asked about responsibility for cybersecurity. Mr. Bustamante responded that ECAS has a cyber audit team that carries out penetration testing and works with the Chief Information Officer. A privacy officer had also been added to the ECAS team, working in conjunction with the cyber auditing function and the Chief Information Officer to identify infrastructure, campus-specific, or training-related issues. Mr. Bustamante remarked that his team is highly specialized, including auditors with master's degrees in computer science. ECAS has worked with outside vendors to perform penetration testing on the campuses, discovered vulnerabilities, and partnered with vendors to patch these deficiencies. ECAS also seeks to identify deficiencies in inventory. The cyber audit team could make a presentation providing more detail at a future meeting.

In response to another question by Regent Makarechian, Mr. Bustamante recalled that Systemwide Cybersecurity Audit Director Greg Loge had made a presentation to the Compliance and Audit Committee at the January 2018 meeting. A future presentation could highlight the synergy of the ECAS cyber team, outside vendors, and the Chief Information Officer.

Regent Sherman asked how the audit plan had evolved over a number of years, and if it was possible for the University to stay ahead of issues in order to avoid financial shortfalls, such as the one discovered at the Berkeley campus. Mr. Bustamante responded that there was a need for improved coordination between different units of the UC system that identify risk to address current and emerging issues. In his view, this required ECAS to strengthen its relationship with the Office of the General Counsel, Risk Services, and the campuses, with more structured dialogue. Mr. Hicks stated that one of the most significant changes in the recent evolution of the audit plan had been alignment with strategic priorities of the institution. One of these strategic priorities is financial sustainability, the financial health of the organization. In this area, ECAS had been shifting its focus away from traditional point-in-time audits and moving toward proactive advisory services projects. ECAS was providing ongoing consultation with management regarding management’s systems of oversight and monitoring of the financial health of the institution, how local financial issues manifest themselves at the campus-wide level, and opportunities for improvement.

Regent Sherman asked if ECAS had experienced resistance as it pursued improved coordination, breaking down barriers between campuses and units, or if this approach was welcomed. Mr. Bustamante responded that this approach worked well. All the interested parties wished to improve the compliance and audit functions, improve the safety of the UC system, and work more in concert with each other. The campuses had welcomed this approach, and there had been cooperation at all levels.

In response to questions by Regent-designate Anderson, Mr. Bustamante confirmed that his position reported both to the President and to the Regents, that he felt that the lines of communication were open, and that issues he raised were listened to and acted upon, with constructive engagement by all.

Regent-designate Anderson asked if there were any particular emerging issues of concern, besides cybersecurity. Mr. Bustamante responded that healthcare compliance, including data privacy and security, was a key area of concern for ECAS because it is heavily regulated and in view of past challenges.

Regent-designate Anderson asked Mr. Bustamante for his assessment of how well the University was performing with regard to cyber risk mitigation and healthcare compliance. Mr. Bustamante responded that the University has a good healthcare compliance team, including staff recently hired. The team was making extensive efforts to strengthen relationships and promote a continual influx of best practices. With regard to cyber-related issues, one goal was to provide ECAS expertise and to leverage the combined skills of ECAS, the Office of the General Counsel, and the Chief Information Officer in penetration testing, cyber auditing, and privacy issues in order to bring about improvements. This was a work in progress, a large undertaking involving software, hardware, and training.

Regent Makarechian requested a list of specific corrective actions recommended for cybersecurity. It was important for the Board to know what needs to be done. Mr. Bustamante responded that this could be provided; some corrective actions would be presented by Vice President and Chief Information Officer Andriola.

Committee Chair Zettel praised ECAS for engaging outside contractors for penetration testing. This is a constantly changing field and hackers are inventive, devising new ways to attack systems. The University cannot always keep this expertise in house and up to date. In the area of diversity, equity, and inclusion, she asked about the assessment of faculty recruitment efforts and practices, and if ECAS had evaluated staff recruitment and promotion from this standpoint. Mr. Hicks responded that over the years, campuses had examined staff recruitment consistently as part of departmental reviews.

Committee Chair Zettel noted that in the background material, some campuses had large numbers of Internal Audit projects planned, and others fewer, probably related to the size of each institution. She asked how this selection is made. Mr. Hicks responded that the various projects differ and are not directly comparable. Comparison should be based not just on the number of projects, but also on the level of effort and number of staff hours devoted to a project. An important factor is whether or not a campus has an academic medical center, and smaller campuses have smaller audit staffs.

4. **UPDATE ON ONE-YEAR STATUS REPORT ON IMPLEMENTATION OF RECOMMENDATIONS FROM STATE AUDIT OF UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT ADMINISTRATIVE EXPENDITURES**

[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.]

Associate Vice President Zoanne Nelson began the discussion by reporting that the Office of the President (UCOP) had recently submitted its one-year status report to the California State Auditor. Systemwide Deputy Audit Officer Matthew Hicks recalled that the State Auditor's report contained 40 recommendations; 33 to UCOP, and seven to the Regents. UCOP had agreed to implement all 33 recommendations. The one-year mark from the date of the audit report had now passed, and this marked the third required status report to the State Auditor on the University's progress in implementing the recommendations. UCOP had provided updates at 60 days and six months, and would be required to provide annual updates in the future. Ten of the 33 recommendations were due in April 2018. UCOP had reported to the State Auditor that all ten were implemented by April, and that the remaining 23 recommendations were on track for completion by their respective due dates. As part of its standard follow-up process, the State Auditor reviewed the one-year status information provided by UCOP and made its own assessment of the implementation status of each recommendation. Of the ten recommendations due in April 2018, the State Auditor had assessed six as fully implemented.

Ms. Nelson presented a list of the ten recommendations due in April 2018. The State Auditor had assessed two as partially completed, one as pending, and one as having had no action taken. She remarked briefly on the six recommendations the State Auditor considered fully implemented. UCOP had developed a methodology for weighing public and private sector pay data, had changed employee policies, which required changing ten different expense reimbursement policies, and had developed a workforce plan in alignment with the California Department of Human Resources model. UCOP had reconvened the campus-led Executive Budget Committee in August 2017 and had met with this committee at least monthly since then. UCOP had developed definitions of systemwide initiatives and administration, and created a comprehensive list of systemwide and Presidential programs and initiatives.

Three of the four recommendations deemed not fully implemented by the State Auditor concerned the 2018-19 UCOP budget. The question of whether implementation of certain recommendations was contingent on having the 2018-19 budget completed was an area of disagreement between UCOP and the State Auditor. UCOP felt that these recommendations would be addressed the following day in the meeting of the full Board, in the presentation of the 2018-19 budget. One of the recommendations was to document and review the restrictions and commitments on UCOP funds. The State Auditor agreed that UCOP had reviewed the restrictions for 466 different funds, presented to the Regents in March, along with the commitments against those funds in the 2017-18 year. The State Auditor assessed this recommendation as partially completed because it expected to see commitments against funds in the 2018-19 budget year. These would be presented the following day. The second of the four recommendations concerned development of a reserve policy, and a reserve policy had been brought to the Regents at the January meeting. The State Auditor indicated that this recommendation was partially completed because it wished to see a statement of the reserves in the 2018-19 budget, which would also be presented the following day. The third recommendation concerned implementation of a recommended budget presentation. This template had been presented at the March meeting, and would be presented the following day. The fourth recommendation was to restructure salary ranges. UCOP had made a significant effort to review its salary ranges and the underlying framework and structure of the compensation program. UCOP had agreed to narrow its salary ranges the following year, but because UCOP had not stated exactly how this would be done, the State Auditor felt that this recommendation was not completed. UCOP disagreed with the State Auditor about the status of these four recommendations and intended to fulfill them starting the following day and over the following year. Twenty-three further recommendations would be due over the following two years. The focus of the first year had been assessment, definition, and creation of a framework for the work to proceed. The second year would focus on development of methodologies and execution of plans, and the third year on completion.

Committee Chair Zettel expressed appreciation for the amount of work that had been accomplished. She asked about the narrowing of salary ranges, and if this were related to concerns expressed by speakers earlier that day during the public comment period about disparity in salaries. Ms. Nelson responded that in her view, the actions undertaken by UCOP to fulfill the State Auditor's recommendation and the remarks made during the public comment period were not related. The State Auditor had concluded that for UCOP positions, the ranges both above and below the midpoint were too broad, and that these positions would be more accurately represented by a narrower range.

In response to a question by Regent Elliott, Ms. Nelson anticipated that after the budget presentation the following day, the State Auditor would consider three of the four recommendations she had just outlined, the three that were budget-related, to be completed. Regent Elliott requested clarification of why the State Auditor might not consider the fourth recommendation completed. Ms. Nelson responded that UCOP had understood this recommendation as having to do with an examination of salary structure and ensuring that this structure encourages employee development, and ensures pay equity. UCOP had reviewed the Market Reference Zones and the Career Tracks system's compensation structure in terms of development and equity. UCOP felt that the work was on track, and that the actual narrowing of salary ranges would be implemented in 2019. In response to a question by Committee Chair Zettel, Ms. Nelson stated that UCOP felt that it had done what was asked, but the State Auditor did not agree.

Regent Elliott asked why the State Auditor's expectations had not been met, if UCOP had been working with the State Auditor all along. Ms. Nelson responded that UCOP did its best to fulfill what it thought were the requirements of the recommendation. UCOP had meetings with the State Auditor in the course of the year and received feedback from the State Auditor at the time of the six-month status report, which was helpful in understanding what the State Auditor expected at the one-year mark. UCOP might not have been in close enough contact to ensure that its responses met the State Auditor's criteria.

Regent-designate Graves asked how this could be avoided in the future and how UC could ensure that the State Auditor would accept the changes it implemented. Ms. Nelson responded that UCOP would be in more regular contact with the State Auditor than it had been during the past year.

Regent Tauscher asked if there was a substantive difference between the University's and the State Auditor's positions or merely a semantic difference, such as a 2019 deliverable versus a 2018 deliverable. She suggested that this difference was a misunderstanding of the specific targets for outcomes, rather than a question of goodwill and the intention to complete the recommendations. Ms. Nelson responded that UCOP fully intended to meet all the recommendations scheduled for this year. She believed that the difference was semantic, concerning the 2018-19 budget and when it would be shared. UCOP had initiated the analysis on narrowing salary ranges and fully intended to carry this out over the coming year. UCOP had invested a tremendous amount of staff time and energy to fully embrace and meet the recommendations. She stated that the difference between UCOP and the State Auditor on this point was a matter of timing and misunderstanding. UCOP thought that it had fully met the recommendation.

President Napolitano remarked that in the case of these four incomplete items, in several instances, implementing the recommendations depended on the Board acting on the UCOP budget. The University provided the State Auditor with a template indicating how the UCOP budget presentation would be made, but believed that actual budget numbers needed to be presented first to the Board at the May meeting. UCOP alerted the State Auditor to this disjunction between the Auditor's one-year deadline and the timing of the May meeting. In President Napolitano's view, providing the budget numbers to the Regents first was the right way to proceed. On the issue of restructuring salary ranges, the State Auditor had collapsed a 2019 deadline into 2018 and moved the goalposts. UCOP would endeavor to be in more regular contact with the State Auditor. President Napolitano stated that the Board should be aware that this had occurred.

Regent Elliott asked about the timing of completion of the fourth recommendation. Ms. Nelson responded that the next report would be at the end of the second year. Regardless of when UCOP finalized this recommendation, the State Auditor would not assess this action until that time. Mr. Hicks noted that there would be a process in October for the State Auditor to follow up on recommendations not fully implemented. Regent Elliott asked if the recommendation would have been implemented by October. Ms. Nelson responded that by then, UCOP would have determined how to narrow the salary ranges.

In response to a question by Staff Advisor Valdry, Ms. Nelson confirmed that the State Auditor wishes UCOP to have completed the narrowing of the salary ranges by April 2019. Determining how UCOP would narrow the ranges was the first step, and should be completed by October; the second step would be the actual salary range restructuring.

Mr. Valdry asked about the impact of narrowing the salary ranges. Ms. Nelson responded that part of determining the methodology was understanding the impact of various ways that the ranges might be narrowed. UCOP needed to take this into consideration.

5. **REPORT ON INDEPENDENT ASSESSMENT OF AUDIT IMPLEMENTATION STATUS**

[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.]

Kurt Sjoberg of Sjoberg Evashenk Consulting referred to the question of the Office of the President's (UCOP) budget presentation and implementation of the State Auditor's recommendations, just discussed with the previous item. His firm's most recent report, dated April 18, made it clear that the UCOP budget had not yet been prepared by that date.

Mr. Sjoberg stated Sjoberg Evashenk's broad conclusion that it was confident that UCOP had met all ten of the State Auditor's recommendations for the first year. Implementation of three of the recommendations would depend on the Regents' approval of the UCOP budget the following day. UCOP had provided a detailed budget template, a template that would be populated with data upon the Regents' approval. The State Auditor had received a clear indication of what the UCOP budget would look like. With regard to the fourth recommendation deemed not completed, and mentioned in the previous discussion, Mr. Sjoberg noted that the State Auditor's report literally states that for April 2018, UCOP should determine how to restructure salary ranges or develop a methodology. A bullet point for April 2019 states that UCOP should narrow its salary ranges. Sjoberg Evashenk never presumed that completion of this last action, clearly scheduled for April 2019, would have been raised by the State Auditor. Following a literal reading of the State Auditor's recommendation, UCOP would not carry out this action until April 2019. Sjoberg Evashenk would have advised the University in its quarterly report that it had concerns if it had felt that UCOP had not addressed this question, and Sjoberg Evashenk was surprised that the State Auditor raised this issue in her response.

Mr. Sjoberg then discussed his firm's review of the UCOP budget, which had taken place over the past week. The budget template was now populated, and in Sjoberg Evashenk's view, the budget provided sufficient detail for any interested reader, including the State Auditor, and addressed all the concerns raised by the State Auditor.

Regent Elliott asked about Sjoberg Evashenk's level of oversight, and if Sjoberg Evashenk was independently verifying actions taken by UCOP. The State Auditor had expressed concerns about this. Mr. Sjoberg responded that these concerns had been expressed by the State Auditor early on in the process, at the six-month mark. Sjoberg Evashenk began its work in summer 2017, meeting and spending a substantial amount of time with all the UCOP working groups. The State Auditor's concern was a matter of an early estimate made by UCOP in its efforts to respond to the recommendations long before the due date. Some changes were made from those early estimates, and the State Auditor felt that Sjoberg Evashenk should have identified these as concerns. Mr. Sjoberg stated his view that these changes were not related at all to the recommendations, and Sjoberg Evashenk's role was to review the recommendations and UCOP's efforts to develop responses to the recommendations. He noted that his firm and the University had made substantial efforts on the response to the State Auditor. The State Auditor did not expect to hear from the University on a daily basis, but expected formal responses at the established reporting dates, with the future dates in April 2019 and April 2020. If UCOP can address recommendations early, Sjoberg Evashenk would recommend that UCOP do so. This would allow time to respond to the State Auditor if she raises a question that in her view had not been fully vetted. Mr. Sjoberg reflected on his experience of 11 years as California State Auditor and ten years as Chief Deputy Auditor General, with 1,600 audit reports issued during his tenure. During that time, no entity or agency had ever spent the amount of time UCOP had spent, about 10,000 hours, in addressing recommendations by the State Auditor.

Committee Chair Zettel asked how Sjoberg Evashenk remained informed about the working groups when he or his colleagues were unable to attend meetings in person. Mr. Sjoberg responded that he and his colleagues had attended dozens of these meetings, and each Executive Budget Committee meeting, some by telephone, and some in person, and that they kept in touch with the working group leaders, who provided materials and summaries from meetings that Sjoberg Evashenk was unable to attend. Sjoberg Evashenk had attended about 80 percent of the meetings and was involved substantially.

Regent Elliott asked what work remained to be done in order for UCOP to state that it had implemented the recommendation regarding salary ranges, and for the State Auditor to recognize the recommendation as completed. Mr. Sjoberg responded that it was up to UCOP to inform Sjoberg Evashenk when it believed it had implemented the recommendation, and to describe its actions. Sjoberg Evashenk would then review UCOP's actions and, if Sjoberg Evashenk thought that more refinement were needed, it would communicate this in one of its reports.

In response to another question by Regent Elliott, Mr. Sjoberg clarified that the State Auditor's stated concerns about Sjoberg Evashenk's oversight were a separate matter from the recommendation to UCOP regarding salary ranges. Mr. Sjoberg offered to provide information on his firm's billings, time spent, and meetings with UCOP employees, which were substantial.

Chair Kieffer asked if the State Auditor's view of how many recommendations were completed would be different in a month's time. Executive Vice President and Chief Operating Officer Nava responded that in conversations with the State Auditor about the recommendation to engage a third party to assist the Regents in monitoring implementation of the corrective action plan for UCOP, the engagement of Sjoberg Evashenk, the State Auditor indicated that it would not mark this recommendation as fully implemented until the Board and UCOP complete the entire review period in April 2020. Part of the State Auditor's expectation was that Sjoberg Evashenk would be providing updates on quarterly monitoring throughout this period.

Regent Elliott noted that the deadline for implementation of this recommendation was stated as July 2017. The University should have the State Auditor change this due date if the full assessment would not take place until a later date. Ms. Nava responded that UCOP had communicated this view to the State Auditor.

Chair Kieffer emphasized the significant effort made by UCOP to respond to these recommendations. The University's budget practices had been in place for a long time. The audit by the State Auditor had pushed UC staff in a very short period of time to present the UCOP budget in a much clearer way, and the budget to be presented the next day reflected a tremendous amount of work accomplished. The University might have some disagreements with the State Auditor on language or style, but was not far from meeting the recommendations. The University had substantially completed what it meant to do. He praised the work UCOP staff had performed, as well as the work of President Napolitano, Ms. Nava, and Sjoberg Evashenk.

Regent Park asked if Mr. Sjoberg had constructive advice for the Regents on identifying and addressing differences early on between the University and the State Auditor in their understanding of the recommendation issues. Mr. Sjoberg responded that precisely these matters are discussed with the UCOP working groups, the question of how a UCOP response would address a particular issue. The working group leaders had listened to Sjoberg Evashenk's comments and advice, made corrections, and developed responses that support the objectives outlined by the State Auditor. There was no question that the UCOP budget process needed to be improved, and this had been substantially accomplished. Sjoberg Evashenk would continue to present its quarterly reports; these are presented to the Compliance and Audit Committee as soon as they are completed.

The meeting adjourned at 11:30 a.m.

Attest:

Secretary and Chief of Staff

Regents Policy on Use of the University's External Accounting Firm

POLICY SUMMARY/BACKGROUND

The Regents' external accounting firm shall be authorized to perform audit and audit-related services for the University. Certain services which would create a conflict of interest will not be provided to the University by the Regents' external accounting firm. Other services may be performed by the Regents' external accounting firm only if they do not create the appearance of a conflict of interest, are competitively bid, and are approved by the Compliance and Audit Committee.

POLICY TEXT

The Regents' external accounting firm will be authorized to perform audit and audit-related services to the University. For the purposes of this policy, audit-related is deemed to be federal audit support, internal control reviews and investigations, implementation of new accounting standards, review of income and other tax matters, internal financial reviews, due diligence procedures related to public debt offerings and other transactions and audits of affiliated entities or special purpose audits.

The University will not retain the Regents' external accounting firm to perform services that create a conflict of interest under the Government Accounting Office independence standards and the American Institute of Certified Public Accountants ethical standards. For the purposes of this policy, services that create a conflict of interest under these standard are bookkeeping, financial information systems design and implementation, appraisal or valuation services, actuarial services, internal audits, management and human resource services, broker/dealer and investment banking services and legal services ("Prohibited Services").

The Regents' external accounting firm is permitted to competitively bid for services that do not create a conflict of interest or appearance of such a conflict, and are allowable under the General Accounting Office independence standards for audit and the American Institute of Certified Public Accountants ethics standards ("Additional Services"). The Regents' external accounting firm would only be retained to perform such services upon the approval of the Regents' Compliance and Audit Committee.

COMPLIANCE/DELEGATION

Prior to engaging the Regents' external accounting firm, the Office of the President – Chief Financial Officer will determine whether the services are audit or audit-related, Prohibited Services or Additional Services. This responsibility may be further delegated by the Chief Financial Officer.

NO RIGHT OF ACTION

This policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California or its Board of Regents, individual Regents, officers, employees, or agents.