

The Regents of the University of California

COMPLIANCE AND AUDIT COMMITTEE

November 13, 2019

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

Members Present: Regents Anguiano, Butler, Cohen, Elliott, Estolano, Park, Sures, Um, and Weddle; Ex officio member Pérez; Advisory member Bhavnani; Chancellors Christ, Gillman, Hawgood, Larive, and Yang; Staff Advisor Klimow

In attendance: Regent Napolitano, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Bustamante, Executive Vice President and Chief Operating Officer Nava, Vice President Leasure, Acting Vice President Lloyd, and Recording Secretary Johns

The meeting convened at 1:45 p.m. with Committee Chair Elliott presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of September 18, 2019 were approved.

2. **ETHICS, COMPLIANCE AND AUDIT SERVICES ANNUAL REPORT 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 remarked that the Ethics, Compliance and Audit Services (ECAS) Annual Report presented an opportunity to better explain ECAS' function, its relationship with the campuses, its ongoing focus, and its three lines of service, which are audit, compliance, and investigations.

Regent Cohen praised the current report, noting that it was easier to read than some past materials. He asked about ECAS' relationship with the campuses, dual reporting, and the workload and backlog of work on the campuses in areas such as investigations. Mr. Bustamante responded that the workload varied dramatically by campus because of different approaches to compliance functions. This topic could be presented at a future meeting to give the Committee an appreciation of the differing points of emphasis on the campuses with regard to addressing compliance issues.

Regent Cohen asked if ECAS had a centralized flow of information that would provide an overview of the situation. Mr. Bustamante responded that ECAS had a centralized system to deal with whistleblower complaints; otherwise, ECAS did not have an overview of the

campuses and medical centers at this point. With regard to reporting lines, he explained that there are various compliance functions on the campuses with dual reporting to the chancellor and to the Chief Compliance and Audit Officer, and through the Chief Compliance and Audit Officer to the Regents. Dual reporting is in place to maintain the independence of these functions and to ensure that Regents can be aware of issues arising throughout the UC system and engage the UC administrative leadership to address these issues if necessary. President Napolitano had recently issued guidance about dual reporting relationships. This guidance was in the process of being formalized. Beyond the formal dual reporting relationships, ECAS has many other relationships to further the mission of compliance.

3. **UPDATE 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 recalled that the University has been reporting annually on the status of its implementation of recommendations by the California State Auditor resulting from its audit of Office of the President (UCOP) administrative expenditures. This reporting takes place in April, but, in October, the State Auditor provides all recipients of audits the opportunity to provide updates. UCOP provided such an update, submitting nine additional recommendations as completed. Of those nine, eight had a deadline of April 2020. UCOP was marking these recommendations as completed six months ahead of schedule. Seven of the recommendations concerned the reallocation of funds from fund balances and from the UCOP operating budget to the campuses, either directly or indirectly. As reported earlier that day to the Finance and Capital Strategies Committee in the *Report of Budget to Actual Expenditures for Fiscal Year 2018-19 for the Office of the President; and First Quarter Fiscal Year 2019-20 Results*, this three-year reallocation to the campuses totaled approximately \$166.3 million. There were two additional recommendations for 2020 that would be completed by April 2020. UCOP had not yet received any communication from the State Auditor about the status of the recommendations in the October update. UCOP had also submitted one of the recommendations from the State Auditor to the Regents as completed, on behalf of the Regents, in consultation with Committee Chair Elliott.

Committee Chair Elliott asked when the University might receive a response from the State Auditor about its view of the status of these recommendations and whether the State Auditor agreed with UC's assessment. Systemwide Deputy Audit Officer Matthew Hicks responded that, in the past, UCOP had waited from a week or two to over a month for feedback.

Committee Chair Elliott asked if there were any recommendations for which the State Auditor's view of completion would likely be different from the University's view. Ms. Nelson responded that UCOP had discussed reallocation and its calculation

methodology for reallocation with the State Auditor. The State Auditor had asked UCOP to clarify definitions and add some language to the draft materials that were shared. This was done, and Ms. Nelson hoped that this would answer the State Auditor's questions on these seven recommendations.

Committee Chair Elliott thanked Ms. Nelson and UCOP for working with the State Auditor to avoid any confusion or mistaken assumptions.

4. **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 presented his firm's ninth quarterly report on the University's implementation of recommendations by the California State Auditor resulting from its audit of Office of the President (UCOP) administrative expenditures. Sjoberg Evashenk would issue two more reports, one in January 2020 and a final report prior to the March meeting. The current report covered the period July 1 to October 15, 2019. There was an area of disagreement with UCOP with regard to the third-year recommendations. UCOP believed that it had completed ten of the 12 recommendations for Year Three. Based on data available on October 15, Sjoberg Evashenk deemed eight of the 12 recommendations to have been completed. In looking closely at these recommendations, Sjoberg Evashenk has realized that, in two areas, certain information has come to UCOP from its contacts with the State Auditor. Mr. Sjoberg stated that, if Sjoberg Evashenk were to rewrite its report, it would concur with UCOP's position.

Committee Chair Elliott stated that the difference was not a dispute of facts but due to the fact that UCOP was granted additional time to submit materials; the date of the report did not correspond with this later submission. Mr. Sjoberg confirmed that this was the case. With regard to the status of the Year Three recommendations, Sjoberg Evashenk believed that UCOP was on a trajectory toward completion. A question that had been raised at many of Sjoberg Evashenk's previous presentations was the desire of the State Auditor to receive the UCOP budget earlier in the year and before it is brought to the Regents for approval. He stated his view that the State Auditor was unlikely to change its position on this, even though UCOP budget information is available two weeks prior to the Regents meeting when the UCOP budget is approved. This would remain an unresolved issue.

Committee Chair Elliott asked if, in Mr. Sjoberg's view, there would not be any continued disagreement with the State Auditor about UCOP salary adjustments and the savings from such adjustments. Mr. Sjoberg responded that this depended on negotiations between the State Auditor and UCOP. Sjoberg Evashenk believed that the State Auditor's recommendation in this area had been fulfilled. In Sjoberg Evashenk's view, the President ultimately makes decisions about UCOP employees, and this should remain so. Any modifications the State Auditor might want to make were not yet known.

5. UNIVERSITY OF CALIFORNIA HERBICIDE TASK FORCE UPDATE

[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.]

Executive Director of Environment, Health and Safety Ken Smith reported that the UC Herbicide Task Force had met six times since the last update, presented at the September meeting. In light of various concerns expressed by members of the Compliance and Audit Committee, President Napolitano asked a member of the Herbicide Task Force to withdraw from the Task Force to address perceived conflicts. That member agreed and graciously withdrew. The Task Force completed its report and submitted it to President Napolitano on November 1 for review. President Napolitano had requested a briefing on the report and recommendations of the Task Force and planned to consult with the chancellors in order to fully understand the potential impact of these recommendations. Until the President made her final decision on the recommendations, the Task Force recommended that the temporary suspension on the use of glyphosate-based herbicides remain in place, with four explicit exemptions. The temporary suspension became effective on June 1 and was currently in effect. The Task Force intended to present its report in its entirety to the Regents at the January 2020 meeting, along with the President's decisions. If the President did not adopt all of the recommendations fully, the Regents would be informed.

Committee Chair Elliott thanked the Task Force and President Napolitano for taking action in response to concerns that had been raised about a member of the Task Force. While the Committee had hoped to receive the final report at this meeting, Committee Chair Elliott understood and concurred with the request to defer the report until January, allowing the President to gain a full understanding of the impact of the recommendations and an opportunity to consult with the chancellors.

Committee Chair Elliott asked if there had been any requests for exemptions since the last meeting. Mr. Smith responded in the negative.

6. ANNUAL REPORT OF EXTERNAL AUDITORS FOR THE YEAR ENDED JUNE 30, 2019

[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 reported that the University's external audit for the year ended June 30, 2019 had been completed.

PricewaterhouseCoopers (PwC) representative Will Cobb provided summary comments. He thanked UC management for facilitating the audit process, which involves hundreds of PwC staff. PwC had received full cooperation and complete access to books and records. PwC issued an unqualified opinion, sometimes referred to as a "clean opinion," indicating that the University's financial statements were materially accurate and that the footnote disclosures were reasonable. PwC identified no instances of management bias in

accounting estimates. PwC had communicated an internal control observation to the Committee regarding the retirement system. UC engages a vendor to provide certain information technology general controls over the retirement system. PwC recommended that this vendor receive a service organization controls audit report, so that the vendor can evidence the operating effectiveness of the internal controls it performs for UC. Ms. Arrivas added that corrective action to address this finding on the retirement system was already under way; she expected that this issue would be resolved for the 2020 audit.

Regent Sures asked if PwC had observed any other internal control issues. Mr. Cobb responded that PwC is not obligated to test the operating effectiveness of all internal controls within the University. The absence of material weaknesses or significant deficiencies should indicate that there were no other significant control findings by PwC.

The meeting adjourned at 2:05 p.m.

Attest:

Secretary and Chief of Staff