

The Regents of the University of California

**COMPLIANCE AND AUDIT COMMITTEE**

September 16, 2020

The Compliance and Audit Committee met on the above date by teleconference meeting conducted in accordance with Paragraph 3 of Governor Newsom’s Executive Order N-29-20.

Members Present: Regents Anguiano, Elliott, Estolano, Makarechian, Park, and Sures; Ex officio member Pérez; Advisory members Gauvain and Zaragoza; Chancellors Christ, Gillman, Hawgood, Khosla, and Larive; Staff Advisor Jeffrey

In attendance: Regents Blum, Drake, Kieffer, and Zettel, Regent-designate Lott, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Bustamante, Executive Vice President Byington, and Recording Secretary Johns

The meeting convened at 11:40 a.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 July 29, 2020 were approved, Regents Anguiano, Elliott, Estolano, Makarechian, Park, Pérez, and Sures voting “aye.”<sup>1</sup>

**2. AMENDMENT OF INTERNAL AUDIT CHARTER**

The Senior Vice President – Chief Compliance and Audit Officer recommended that the Compliance and Audit Committee recommend to the Regents 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 Bustamante explained that, at the request of Committee Chair Elliott and Vice Chair Cohen, his office had made proposed revisions to the Internal Audit Charter to clarify Internal Audit’s access to information within the UC system, including new language about escalation to ensure that any potential issues regarding access can be resolved quickly.

Regent Park proposed a further amendment to the language of the Charter. She referred to a sentence in the section titled “Independence and Reporting Structure” regarding reporting by the Chief Compliance and Audit Officer (CCAO): “The CCAO shall also consult with

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

and advise the President on compliance and audit activities.” She suggested that the following language be added: “The CCAO shall also consult with and advise the President and the Chair and Vice Chair of the Regents’ Committee on Compliance and Audit on compliance and audit activities.” Based on the CCAO’s dual reporting relationship and recent events, it seemed that it would be a good common practice to include the Chair and Vice Chair and to memorialize this in the Charter. Mr. Bustamante noted that this direct reporting relationship was memorialized in the first sentence of the Charter. He did not object to adding the language proposed by Regent Park, which would reflect established practice. Mr. Bustamante routinely met with the Chair and Vice Chair of the Committee, as well as with the Chair and the Vice Chair of the Board, to discuss audit and compliance-related matters.

Regent Park commented that the proposed language would memorialize not just the reporting relationship, but the consultation and advisement process with the Chair and Vice Chair of the Committee.

Regent Makarechian recalled that, at the July closed session meeting of the Committee, he had asked about how campuses would address conflicts of interest in reporting relationships. He suggested that this issue be included in the Charter, in the section titled “Scope of Work.” Mr. Bustamante explained that the Charter was a foundational document that allows Internal Audit to access information within the UC system necessary for its work on behalf of the President and the Regents. The conflict of interest Regent Makarechian had alluded to at the July meeting was an operational issue and a Management Corrective Action being addressed through mechanisms separate from this Charter. Mr. Bustamante’s office was monitoring that implementation and would report on progress to the Board.

Upon motion duly made and seconded, the Committee approved the amendment proposed by Regent Park, Regents Anguiano, Elliott, Estolano, Makarechian, Park, Pérez, and Sures voting “aye.”

Upon motion duly made and seconded, the Committee approved the item as amended and voted to present it to the Board, Regents Anguiano, Elliott, Estolano, Makarechian, Park, Pérez, and Sures voting “aye.”

The meeting adjourned at 11:50 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 ~~November 2015~~ September 2020)

#### Policy Statement

It is the policy of the University of California (UC) to maintain an independent and objective internal audit function to provide the Regents, President, ~~and~~ campus Chancellors and Laboratory Director 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 (IA) 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 (IA)~~ is to provide the Regents, President, campus Chancellors and Laboratory Director with independent and objective assurance and consulting services designed to add value ~~to~~ improve operations. We do this through communication, monitoring and collaboration with management to assist the campus community in the discharge of their oversight, management, and operating responsibilities. IA brings a systematic, risk-based 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 it deems necessary to perform audit, consulting/advisory services, and investigation projects and ongoing risk assessment activities, including, but not limited to, records, computer files, information systems, databases, property, and personnel of the University in accordance with the authority granted by approval of this charter and 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 on behalf of the Board of Regents.

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

Information requested by IA shall be provided without delay. Any attempt to interfere with or prevent IA's access to information, including termination of access to information required to perform IA's duties, shall be immediately escalated to the local Chancellor/Laboratory Director and to the President of the University for resolution. If the access issues are not timely resolved through this escalation, the Chief Compliance and Audit Officer (CCAO) shall escalate the issues to the Chair of the Regents Compliance and Audit Committee for resolution.

### **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 a direct, independent reporting relationship to the Regents, communicating directly with the Board of Regents and the Regents Committee on Compliance and Audit regarding all elements of meaningful compliance and audit programs, including providing annual reports on compliance with applicable laws, regulations, and University policies. The CCAO shall also consult with and advise the President on compliance and audit activities. 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 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/Laboratory 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 & ~~and~~ 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.

The Chancellors/Laboratory Director may delegate other IAD administrative oversight responsibilities such as time and expense approval and departmental budget oversight to a position no lower than the Vice Chancellor/Associate Laboratory Director or Chief Operating Officer level. To maintain organizational independence, this position should generally not have responsibility over key operating units routinely reviewed by internal audit. The Chancellor/Laboratory Director shall retain responsibility for: approval of the campus/laboratory annual audit plan; and approval of local audit committee/work group charter; and shall meet with the IAD regularly to review the state of the internal audit function and the state of internal controls locally. The Regents have the ultimate authority to approve and/or amend the systemwide audit plan, which is a consolidation of all campus and laboratory audit plans.

### **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 are fostered.
- Coordination of activities and communication of information among the various governance groups occur as needed.
- The potential occurrence of fraud is evaluated and fraud risk is managed.
- Information technology governance supports UC's strategies, objectives, and ~~the organization's~~ privacy framework.
- Information technology security practices adequately protect information assets and are in compliance with applicable policies, rules and regulations.

- 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~~ of governance, risk management, and control processes for the organization. Examples include financial, performance, compliance, systems security and due diligence engagements.
- **Consulting/Advisory Services**, the nature and scope of which are agreed upon 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 the UC Standards for Ethical Conduct. At a minimum, it complies with relevant professional standards; ~~and~~ such as 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 the Chair of the Compliance and Audit Committee, upon the recommendation of the ~~SVP/CCAO~~.