

The Regents of the University of California

**COMPLIANCE AND AUDIT COMMITTEE**

November 13, 2024

The Compliance and Audit Committee met on the above date at the UCSF–Mission Bay Conference Center, San Francisco campus and by teleconference meeting conducted in accordance with California Government Code §§ 11133.

Members Present: Regents Batchlor, Cohen, Elliott, Leib, Makarechian, Matosantos, Pérez, Reilly, Sherman, and Sures; Advisory members Cheung and Schini; Chancellors Gillman, Hawgood, Khosla, and Larive

In attendance: Secretary and Chief of Staff Lyall, General Counsel Robinson, Chief Compliance and Audit Officer Bustamante, Provost Newman, Executive Vice President and Chief Financial Officer Brostrom, Chancellors Lyons and Wilcox, and Recording Secretary Johns

The meeting convened at 2:20 p.m. with Committee Chair Sures presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of September 19, 2024 were approved, Regents Batchlor, Cohen, Elliott, Leib, Makarechian, Matosantos, Pérez, Reilly, Sherman, and Sures voting “aye.”<sup>1</sup>

**2. ETHICS, COMPLIANCE AND AUDIT SERVICES ANNUAL REPORT 2023-24**

[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 the Office of Ethics, Compliance and Audit Services (ECAS) was responsible for coordinating audit, compliance, and investigative efforts across the entire UC system at the campuses and health centers. In July 2023, the Regents approved ECAS’ audit and compliance work plans for that fiscal year. The plans were developed based on comprehensive risk assessments with the campuses and the Office of the President, focusing on the areas of highest risk within the University. ECAS completed key strategic projects and efforts outlined in the fiscal year 2023–24 work plans, but Mr. Bustamante noted that these initiatives did not represent the full breadth of ECAS’ daily operations or other completed projects for the year. ECAS’ work included collaboration with stakeholder and cross-functional teams and federal outreach efforts.

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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.

Committee Chair Sures commended ECAS for its effective work over the year serving the Regents and the University.

Regent Makarechian asked about the increase in the number of Management Corrective Actions (MCAs). Systemwide Deputy Audit Officer Matthew Hicks responded that there had been an increase in the number of MCAs over 300 days old. ECAS regularly discusses these with the Committee Chair and Vice Chair and with the campuses. Certain MCAs take longer to complete, such as those involving policy changes or changes to information technology systems. He anticipated that the number of open MCAs would decrease during the next year. Mr. Bustamante added that, while the number of completed audits was lower than in the preceding year, the number of hours dedicated to these projects increased. This reflected the fact that ECAS has taken on larger, systemwide projects, for which MCAs would necessarily at times be more complex than for individual audits of smaller issues.

Regent Makarechian commented that a high number of MCAs were added this year. He requested more information about the specific issues addressed by the MCAs older than 300 days. Mr. Bustamante responded that this information could be provided.

Regent Makarechian asked about ECAS' communications with the University's external auditors. Mr. Bustamante responded that these communications were focused on specific issues of interest to the external auditors.

Regent Makarechian asked if ECAS shared information about MCAs with the external auditors. Mr. Bustamante responded that ECAS usually receives discrete questions from the outside auditors, requests for information about certain audits or MCAs. ECAS would share the information requested. If the external auditors requested this information about MCAs, it would be provided, but the external auditors' review was focused on the finances of the University and any possible material misstatements. The external auditors and ECAS were focused on different issues. All ECAS information was available to the external auditors.

Regent Leib praised ECAS for the quality of its work.

Regent Cohen referred to improvement in the percentages of UC faculty and staff who have completed mandatory training programs. Due to staff turnover, 100 percent compliance would not be a realistic goal, but he asked what a realistic goal would be, and would represent near perfect compliance. Mr. Bustamante responded that, given the turnover of people who enter and leave the University, a percentage in the low 90s would represent a good level of compliance. A chart included in the background material showed that completion rates for all training programs were increasing, except for the Ethics and Compliance Briefing for Researchers. In that case, this was due to a change in software systems from a legacy system to leveraging UCPATH. ECAS was working consistently with the campuses to increase completion rates.

Regent Cohen asked about the reason for the relatively lower completion rates for the Cybersecurity Awareness training. Mr. Bustamante responded that ECAS was still

analyzing these statistics and trying to understand the causes. ECAS would share best practices with the campuses to raise these completion rates. Overall, with respect to completion rates, the University was in a much better position now than a few years ago.

3. **ANNUAL REPORT OF EXTERNAL AUDITORS FOR THE YEAR ENDED JUNE 30, 2024**

[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 Sures asked PricewaterhouseCoopers (PwC) Representative Will Cobb to provide a brief summary of how PwC communicates with the Regents and its process over the course of the year. Mr. Cobb responded that PwC performed inquiries with the Committee Chair and Vice Chair regarding the risk of fraud with respect to financial statements or misappropriation of assets. PwC discussed any issues of concern it observed in its risk assessment, such as unusual transactions or events, matters of sensitivity, or areas that might require special audit attention. PwC addressed questions by the Regents about its process, teams, and competencies. This was a year-round effort involving many individuals and units.

Regent Cohen requested clarification on a PwC observation about the use of restricted funds and its fiscal impact. Mr. Cobb responded that this concerned accounting policy on the University's use of restricted funds first and when that restriction is met. It stood to reason that one would wish to use restricted funds first when there were also unrestricted funds. The University was doing this in accordance with its established accounting practices. The observation concerned a restricted class misclassification in the prior year numbers which had been identified by management. This item was identified by management and corrected. It concerned only classification of an immaterial nature. PwC was comfortable with the correction made by UC management.

The meeting adjourned at 2:40 p.m.

Attest:

Secretary and Chief of Staff