

Office of the Secretary and Chief of Staff

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA:

ACTION ITEM

For Meeting of November 16, 2017

GOVERNANCE, POLICY, AND COMPLIANCE REFORMS (ADOPTION OF REGENTS POLICY ON COMPLIANCE WITH STATE AUDITS, REGENTS POLICY ON INDEPENDENT REPORTING TO THE BOARD OF REGENTS BY OFFICERS WITH DUAL REPORTING OBLIGATIONS TO THE BOARD AND TO THE PRESIDENT OF THE UNIVERSITY, AND REGENTS POLICY ON APPOINTMENT AND COMPENSATION OF OFFICERS OF THE REGENTS WITH DUAL REPORTING OBLIGATIONS TO THE BOARD OF REGENTS AND TO THE PRESIDENT OF THE UNIVERSITY; AMENDMENT OF BYLAW 23, AMENDMENT OF THE COMPLIANCE AND AUDIT COMMITTEE CHARTER; AND AMENDMENT OF REGENTS POLICY 7702 - SENIOR MANAGEMENT GROUP PERFORMANCE MANAGEMENT REVIEW PROCESS)

EXECUTIVE SUMMARY

In response to the April 2017 Report of the California State Auditor, which criticized the President of the University's handling of campus survey responses, the President issued "Guidelines on Internal Communication during State Audits."

The Chair of the Board and former Board Chair Lozano recommend further related revisions to UC policies and other governing documents. These revisions are intended to clarify and strengthen the roles of certain administrators at the University, especially those with a dual reporting relationship to the Board of Regents and to the President of the University. To that end, the revisions expressly prohibit interference with State Auditor audits and investigations, strengthen the independence of the General Counsel and Chief Compliance and Audit Officer, and reinforce their independent reporting obligations to the Board, particularly with respect to matters concerning the Office of the President.

RECOMMENDATION

The Chair of the Board, in consultation with former Chair Lozano, recommends that the Regents approve the following:

- A. Adoption of a Regents Policy on Compliance with State Audits as shown in Attachment 1.

- B. Adoption of a Regents Policy on Independent Reporting to the Board of Regents by Officers with Dual Reporting Obligations to the Board and to the President of the University as shown in Attachment 2.
- C. Following service of appropriate notice, amendment of Bylaw 23.5 – Authority and Duties of Principal Officers, as shown in Attachment 3.
- D. Direct that Systemwide Human Resources Division amend the job descriptions of the Chief Compliance and Audit Officer, the General Counsel, the Chief Investment Officer, and the Systemwide Deputy Audit Director and that the Internal Audit Manual be amended to add the following language: With regard to audits and investigations of the Office of the President, the [officer] reports solely and exclusively to the Board of Regents. The [officer] is expected to report to the Board any significant concerns regarding the Office of the President.
- E. Amendment of the Compliance and Audit Committee Charter as shown in Attachment 4.
- F. Amendment of Regents Policy 7702 – Senior Management Group Performance Management Review Process, as shown in Attachment 5.
- G. Following service of appropriate notice, amendment of Bylaw 23. – Officers of the Corporation – section 2. (c) Appointment and Qualifications Principal Officers, and section 3. (c) Removal Principal Officers as shown in Attachment 6.
- H. Adoption of a Regents Policy on Appointment and Compensation of Officers of the Regents with Dual Reporting Obligations to the Board of Regents and to the President of the University as shown in Attachment 7, effective upon approval of amendment to Bylaw 23 as described in paragraph G above.

BACKGROUND

The Chair of the Board, in consultation with former Chair Lozano, is proposing a series of additions and revisions to the Regents' governing documents that are intended to clarify and strengthen the roles of certain administrators at the University, especially those with a dual reporting relationship to the Board of Regents and to the President of the University. These are summarized below.

Adoption of a Regents Policy Regarding State Audits

This new policy would state that University employees are not to obstruct, interfere or in any way attempt to coordinate requests for information in regards to any state audit. It clarifies that campuses may seek legal counsel from an attorney designated as audit counsel who reports directly to the Board Chair and is screened from the President and his or her immediate staff, as well as logistical and process-related non-substantive advice from the Office of the Chief Compliance and Audit Officer, who in that situation reports directly to the Board Chair and the

Compliance and Audit Committee Chair and is screened from the President and his or her immediate staff.

The policy provides a single reporting line to the Board of Regents for the Chief Compliance and Audit Officer and the General Counsel during state audits of the Office of the President. The policy would also expand responsibilities of the Chief Compliance and Audit Officer, Systemwide Deputy Audit Director, and campus Internal Audit Directors to include serving as independent ombuds for audit-related questions or concerns. Specified University employees would be required to receive training to strengthen their oversight of the University's handling of audit responses and attest that they have taken training, understand the policies and will comply with them.

***Adoption of a Regents Policy on Independent Reporting to the Board of Regents
By Officers of the Regents with Dual Reporting Obligations to the Board of Regents and to the
President of the University***

This new policy would strengthen the reporting and accountability of Officers of the Regents with dual reporting relationships to the Board and ensure independence with regard to issues pertaining to the President of the University.

***Amendment of Bylaw 23.5 – Authorities and Duties of Principal Officers - and Revisions to
Job Descriptions***

Bylaw 23.5 would be amended to require independence in audits or investigations of the Office of the President and reporting concerns regarding the Office of the President by adding language to the duties of each Principal Officer who has dual reporting responsibilities that states: "With regard to audits and investigations of the Office of the President, the General Counsel reports solely and exclusively to the Board. The General Counsel is expected to report to the Board any significant concerns regarding the Office of the President. The Regents would require that this language be added to the formal job descriptions of these Officers and the Systemwide Deputy Audit Director.

Amendment of the Compliance and Audit Charter

The Committee Charter would be amended to give the Compliance and Audit Committee oversight responsibility for independence and accountability of the Chief Compliance and Audit Officer and the General Counsel regarding ethics, compliance and risk management concerning the Office of the President.

***Amendment of Regents Policy 7702 – Senior Management Group Performance Management
Review Process***

Regents Policy 7702 is part of a series of policies regarding senior administrators at the University. The proposed amendment would strengthen the role of the Board in the annual evaluation process for the Principal Officers of the Regents who report both to the Board and to

the President of the University. For each of these three Officers, there is a designated Regent to review the annual self-assessments and provide a separate evaluation.

The amendments would also require that compliance with University policies be a consideration in annual performance evaluations.

Amendment of Bylaw 23. – Officers of the Corporation section 2. (c) Appointment and Qualifications Principal Officers, and section 3. (c) Removal Principal Officers

Paragraphs in Bylaw 23, Officers of the Corporation, would be amended to specify that appointments of Officers with dual reporting responsibilities are to be upon the joint recommendation of the Chair of the Board and the President of the University. Dismissals of Officers may be upon the recommendation of either the Chair of the Board or the President, in consultation with appropriate committee chairs for the Chief Compliance and Audit Officer and the Chief Investment Officer. Dismissal of Officers requires the affirmative vote of a majority of the Regents then in office.

Regents Policy on Appointment and Compensation of Officers of the Regents with Dual Reporting Obligations to the Board of Regents and to the President of the University

This is a proposal for a new Senior Management Group policy. It would require that recommendations for appointments of, appointment salaries, and any changes to compensation for the General Counsel, the Chief Compliance and Audit Officer, and the Chief Investment Officer be made jointly by the Chair of the Board and the President of the University, in consultation with appropriate committee chairs, including the Chair of the Governance and Compensation Committee.

Attachments:

1. Regents Policy on Compliance with State Audits
2. Regents Policy on Independent Reporting to the Board of Regents by Officers of the Regents with Dual Reporting Obligations to the Board and to the President of the University
3. Amendment of Bylaw 23.5
4. Amendment of the Compliance and Audit Committee Charter
5. Amendment of Regents Policy 7702 – Senior Management Group Performance Management Review Process
6. Amendment of Bylaw 23. – Officers of the Corporation section 2. (c) Appointment and Qualifications Principal Officers, and section 3. (c) Removal Principal Officers

7. Regents Policy on Appointment and Compensation of Officers of the Regents with Dual Reporting Obligations to the Board of Regents and to the President of the University