

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
OFFICE OF ETHICS, COMPLIANCE AND AUDIT SERVICES



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Alexander Bustamante
SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

September 28, 2017

EXECUTIVE DIRECTOR LARSEN

RE: Final Report Project No. P17A002: Outside Professional Activities

Attached is a copy of the final report for: Audit Services Project No. P17A002 Outside Professional Activities. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: matthew.hicks@ucop.edu).

A handwritten signature in black ink, appearing to read 'Matt Hicks'.

Matt Hicks
Systemwide Deputy Audit Officer

Attachment

cc: Executive Vice President Nava
Senior Vice President Bustamante
Vice President Duckett
Director Fernandez
Systemwide Audit Manager Cataldo
Contractor Harrigan

UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
SYSTEMWIDE AUDIT

Outside Professional Activities
Audit No. P17A002
August 2017

Work Performed by:
Contract Auditor Harrigan

Work Reviewed by:
Systemwide Audit Manager Cataldo
Systemwide Deputy Audit Officer Hicks

Executive Summary

Introduction

In accordance with the annual audit plan, Internal Audit completed a systemwide audit of 2016 Outside Professional Activities (OPA) of the University of California's (UC's) Senior Management Group (SMG). The UC Regents initially established Policy 7707, Senior Management Group Outside Professional Activities, in July 2010. The policy was updated effective mid-year, on July 21, 2016. New requirements include:

- Two-tiered approval of both compensated and non-compensated OPA
- Review of OPA by an independent advisory committee if there are concerns related to reputational risk, time commitment, compensation or reputational risk
- Expedited review process for new OPA requests during the calendar year
- Annual approval of ongoing OPA
- Limit of two concurrent compensated activities when assessing proposed activities
- Provision of additional information regarding details of the proposed activity including a description of how the activity benefits UC

UC has established a systemwide OPA approval and reporting process. SMG members record planned compensated or non-compensated OPA on a paper form, obtain written approval from local approving authorities, and forward the documents to local Human Resources (HR). If approval is also required from the UC President or the Chair of the Regents, Systemwide HR Compensation is notified and is responsible for any further processing. Local HR enters data from the forms into the Senior Leadership Information System (SLIS).

Annually, each SMG member must sign and file a report detailing all OPA performed during the previous calendar year. In addition, if any new activity is planned after the original submission, approval must be obtained prior to engaging in or announcing the activity. OPA data from the SMGs is consolidated by Systemwide HR and reported to the President and the Regents' Committee responsible for oversight of compensation.

Objective and Scope

The primary objective of this audit was to assess the adequacy of internal controls over OPA requests, approvals and reports as well as to assess compliance with the version of Regents Policy 7707 in effect at the time that the SMG members submitted their 2016 OPA for approval.

We selected a sample of OPAs that included all direct reports to the Regents and to the President, and selected SMGs from each campus and Lawrence Berkeley National Laboratory (LBNL).

As part of our review, we performed the following steps:

- Reviewed 2016 annual compensated and uncompensated OPA reports:
 - To determine if there were material changes from the prior year by comparing to the 2015 report
 - To verify accrued vacation was debited for compensated OPA performed

during usual work hours

- Reconciled reported compensated OPA to 2016 California Statement of Economic Interests forms (Forms 700) and investigated any differences
- Reviewed SMGs 2016 OPA forms:
 - To determine the correct form(s) were utilized and contained required information
 - To determine if OPA was properly approved.

Additionally, from our sample we selected 32 SMG members, representing all locations, for in-person interviews in an effort to:

- Determine if any university resources were utilized related to their activities
- Determine the reason for any variances between the information on the compensated OPA forms and the Form 700s
- Determine if there were questions or concerns regarding the OPA process

Overall Conclusions

Based on the information reviewed, while we observed general adherence to OPA policy, we found controls should be strengthened to ensure all OPA requests are reviewed timely and approval is documented. Also, improvements are needed to ensure that the Senior Leadership Information System (SLIS) is accurate and updated timely, that SMG questions or clarifications are addressed to ensure compliance, and that requirements of Regents' Policy 7707 are consistently followed.

Most of the issues we identified related to activities and controls that occurred before July 21, 2016 when the prior version of the policy was in effect. We identified relatively few issues related to adherence with the new policy requirements.

For a detailed discussion of the issues, please refer to the subsequent pages of this report.

Opportunities for Improvement and Action Plans

1. Systemwide approval for activities was not obtained timely

We noted that Systemwide HR did not forward 2016 SMG OPA forms to the UC President when required by policy (in effect as of January 1, 2016) for approval at the beginning of 2016. Specifically, the 2016 OPA forms from 18 SMG members submitted prior to July 21, 2016, were not approved as of the date of our fieldwork, and eight UC Chancellors' and the LBNL Director's OPA were not forwarded to the President for pre-approval as required by policy. In addition, one of these Chancellors was erroneously informed by Systemwide HR that his OPA had been approved.

The 2016 OPA request originally submitted by the President was approved by the Chair of the Regents, however, her year-end report included one activity that had not been previously submitted for approval. The activity was for uncompensated participation on the advisory board of a non-profit organization for which the President reported 8 hours of activity.

During our fieldwork, we suggested that Systemwide HR inform the President and Chair of the Regents about the approval oversight and seek retroactive review and approval. Retroactive approvals for the SMG members were obtained from the President on August 15, 2017.

Action Plan:

HR Systemwide Compensation submitted a request for approval to the Chair of the Regents for the President's one additional 2016 OPA and the request is under review.

Target date:

October 31, 2017

2. Local approval for activities was not obtained timely

We observed that, prior to implementation of the new policy in July 2016, several approvals were not timely:

- Two SMGs prepared and signed off their forms at the beginning of the year but the local approver did not sign off until four months later.
- An SMG prepared and signed off the OPA form at the beginning of the year but the local approver did not sign off until six months later.
- An activity was listed on the OPA report but the campus did not have an approved OPA request form on file that included this one activity for the SMG member.

The new policy, effective July 21, 2017, indicates reviews and decisions regarding OPA should be completed within 30 days.

We reviewed all requests for new OPA after July 21, 2016 and observed one instance where the new policy was not followed related to the second tier approval and provision of additional supporting information. While the policy change was effective immediately, per Systemwide HR Compensation, it took some time to develop and distribute new forms and provide guidance to the campuses. This delay was exacerbated due to a staff vacancy.

Action Plan:

As part of the new annual process, HR Compensation will remind the campuses regarding the requirements of the new policy and the need for timeliness in reviewing and approving SMG OPA.

Target date:

December 1, 2017

3. Senior Leadership Information System (SLIS) data is not always reliable

We noted that the OPA reports initially generated from SLIS contained inaccurate data. Most data in SLIS is entered manually at the campuses. We noted the following:

- Terminated employees remain in the SLIS unless local HR removes them. This places a burden on Systemwide HR during the annual certification process as their planned activities will appear on the SLIS report but a certification form will not be forthcoming. Accordingly, Systemwide HR needs to follow up with the campuses to determine if submission of the form is delayed or if the person has terminated.
- UCOP is the only location that has implemented UCPATH which does not yet have an automated interface with the SLIS system and each SMG profile must be entered manually by UCOP HR. We noted a UCOP SMG member was missing from the initial report, but was added prior to the final report.

To remedy these two issues for 2016 reporting, Systemwide HR Compensation reconciled the SLIS OPA initial reports to SMG certifications and followed up until resolution. Once that activity was complete, the final report was provided to the UC Regents Committee on Compensation. We did not identify any errors in the report that was submitted to the Regents.

Action Plan:

HR Systemwide Compensation will work with IT to implement improvements to SLIS to address these issues. They will also communicate with campus representatives regarding their responsibilities for timely input of OPA data. Implementation of SLIS enhancements is anticipated in October 2017.

Target date:

November 30, 2017

4. Additional information or clarification regarding OPA

During our SMG interviews, a number of SMG members indicated that they had questions or needed additional clarification on OPA requirements. In some cases, this was due to different requirements for completing the California 700 form compared to the UC OPA form. For example, travel reimbursements are to be reported on the 700 form but these amounts should not be reported to UCOP as compensation for OPA.

Internal Audit provided to Systemwide HR Compensation and the Office of General Counsel a list of questions and comments that were collected during this audit from SMG members.

Action Plan:

Systemwide HR Compensation has completed an initial review of the comments. They will provide clarification to campuses as necessary and will use this input to develop FAQs or other policy clarifications and disseminate accordingly.

Target date: November 30, 2017