

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

February 26, 2019

VICE PRESIDENT DUCKETT

RE: Final Report Project No. P18A002: Outside Professional Activities

Attached is a copy of the final report for: Audit Services Project No. P18A002 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: Senior Vice President Bustamante
Executive Vice President Nava
Director Fernandez
Systemwide Associate Audit Director Cataldo
Manager Butler
Contractor Harrigan

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

Outside Professional Activities
Audit No. P18A002
October 2018

Work Performed by:
Contractor Auditor Harrigan

Work Reviewed by:
Systemwide Associate Audit Director Cataldo
Systemwide Deputy Audit Officer Hicks

Executive Summary

Introduction

In accordance with the annual audit plan, Internal Audit completed a systemwide audit of 2017 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 July 21, 2016.

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 the local Human Resources (HR) SMG Coordinator. If approval is also required from the UC President or the Chair of the Regents by policy, Systemwide HR is notified and is responsible for any further processing. Local HR SMG Coordinators enter data from the forms into the Senior Leadership Information System (SLIS). If any new activity is planned after the original OPA submission, policy requires approval be obtained prior to engaging in or announcing the activity.

As part of the annual OPA certification process, each SMG member is provided a report generated from the SLIS which lists their OPA details from the previous calendar year. The report identifies whether OPA activity was compensated or uncompensated, total hours of effort, hours of activities during business hours, and vacation debited. If required, the SMG member manually corrects the paper report for any inaccuracies or omissions. The SMG member signs and dates the printed report and submits it to their respective local SMG Coordinator. If they did not plan any OPA and did not have any reportable activities, this is also indicated on the form that is submitted to the SMG coordinator.

Systemwide HR downloads SMG OPA data from SLIS and prepares reports for the President and the Regents' committee responsible for oversight of compensation. HR provides both interim and annual reports to the committee. In 2018, SLIS was enhanced to include check boxes to indicate if an activity is approved OPA. Campus SMG Coordinators were instructed to use these boxes. This should reduce the over reporting of uncompensated OPA which has occurred in the past.

HR has requested an enhancement to UCPATH so that it can replace SLIS as the system of record for OPA. This is tentatively scheduled for FY2020-2021. The requested enhancement is to add OPA request/approval workflow and reporting functions to UCPATH which will streamline the process.

In the fall of 2017, Systemwide HR reorganized Outside Professional Activities management and transferred the responsibilities out of the HR Compensation and Strategy unit to a manager who reports directly to the Vice President, Systemwide HR. This position was vacant for several months, contributing to some delays in the OPA management process.

Objective and Scope

The primary objective of this audit was to assess the adequacy of internal controls over OPA requests, approvals and reports, and assess compliance with Regents Policy 7707. We reviewed the compensated OPA report to verify that any SMG member who performed an activity during business hours either debited vacation or donated the amount to UC or a non-profit organization.

As part of our sample, we selected all SMG members who report directly to the Regents and to the President and a sample of SMG members from the campuses, health systems, and Lawrence Berkeley National Laboratory (LBNL). We reviewed 2017 OPA of 48 SMG members in total.

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

- Reviewed 2017 annual compensated and uncompensated OPA reports and compared to the 2016 reports to:
 - Determine if there were material changes from the prior year.
 - Determine if compensated activities were grandfathered in if the count was greater than two consecutive activities.
- Reconciled reported compensated OPA activities to the 2017 California Statement of Economic Interests forms (Form 700) and inquired as to any differences.
- Reviewed 2017 SMG OPA forms, approvals, and certifications to:
 - Verify they contained required information.
 - Verify OPA was properly approved in a timely manner.

From our sample, we selected 21 SMG members, representing all locations, for in-person interviews in an effort to:

- Confirm that no university resources were utilized related to their activities.
- Clarify the reason for any variances between the information on the compensated OPA forms and the Forms 700.
- Determine if the SMG member required additional clarification regarding the OPA policy or process.

Overall Conclusions

While we observed general adherence to OPA policy, we concluded that controls should be strengthened to ensure OPA requests are submitted by the campus or Systemwide HR to the approving authority timely and the SMG Coordinators communicate the results of the OPA reviews to SMG members in a timely manner. Improvements are also needed to ensure that the Senior Leadership Information System (SLIS) is accurate and updated in a timely manner, SMG questions or clarifications are addressed to ensure compliance, and requirements of Regents' Policy 7707 are consistently followed.

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

Opportunities for Improvement and Action Plans

1. Several SMG members did not request or obtain approval for additional OPA activities that arose during the year.

OPA Policy requires SMG OPA be approved in advance of initiating the activity. Although Systemwide HR receives OPA requests throughout the year, we noted several instances in which an SMG, after obtaining their initial approvals for 2017 OPA, was offered and performed additional OPA during 2017 without requesting or obtaining approval for the additional activity. Specifically,

- One SMG member had an unapproved uncompensated activity which was not included in the final report to the Regents.
- One SMG member had 25 hours of unapproved compensated activity for which they received \$5,000 in compensation, which was included on the final report to the Regents.
- One SMG member reported 73 hours of 2017 COPA totaling \$79,000, which was not on the original approval request but was on the final report. During audit fieldwork, this OPA was retroactively approved.

Action Plan:

a. For the two unapproved 2017 OPA above, Systemwide HR will contact the respective campus SMG Coordinators and inform them that these activities must be submitted for retroactive approval and confirm that retroactive approval is obtained.

Target date:

Notification and retroactive approval of OPA – January 31, 2019

b. Systemwide HR will develop OPA Guidelines and/or FAQs that will include at a minimum: details of the OPA request, approval, notification and certification processes; and roles and responsibilities of Systemwide HR, SMG coordinators and SMG members.

Target date: May 31, 2019

2. SLIS was not updated timely which led to inaccuracies in the 2017 Regental OPA reports.

SMG Coordinators use SLIS to record all outside activities including those not considered OPA. Campus and the UCOP SMG Coordinators perform SLIS data entry, and Systemwide HR uses SLIS data to produce the Regental OPA reports. We noted that SMG Coordinators did not always update SLIS to reflect changes that resulted from approving authority review or from the SMG certification process. This incomplete

or inaccurate SLIS data resulted in over-reporting errors in 2017 Regental OPA reporting:

1. *Non-Reportable OPA Included in Regental OPA Reports*

As part of the OPA approval process, the President and/or the local approving authority determined that a number of activities were part of the SMG member's job expectations and accordingly would not be included on the OPA report. For 9 of 48 SMG members reviewed, the local SMG Coordinator did not update SLIS to reflect these decisions. As a result, the Regents report incorrectly included 21 non-reportable activities totaling 370 hours for activities that were determined to be part of the individual's job expectations, and therefore were non-reportable.

2. *OPA Changes not Reflected in SLIS, Resulting in Errors in Regental OPA Reports*

During the annual certification process, the SMG Coordinators provide the SMG members with individual OPA activity reports to review and update accordingly for any modifications to OPA hours and/or compensation if necessary. The SMG Coordinator should enter any changes made by the SMG member into SLIS. We noted that SMG member changes were not always reflected in SLIS and as a result, the Regental OPA report contained inaccuracies.

We specifically noted the following:

- For 3 of the 48 SMG members reviewed, there were 5 activities that SMG member manually reduced by a total of 118 hours, and these changes were not reflected in SLIS.
- One SMG member reviewed indicated his compensation was \$51,342 less than originally recorded and this was not corrected within SLIS.

Action Plans:

a. Systemwide HR will review the certifications that were not included in the audit sample to determine if there were additional corrections that were not entered into SLIS prior to the Regents' report being prepared and distributed. The HR Manager of Outside Professional Activities will discuss the results with the Systemwide VP of Human Resources to determine what additional activities are warranted with respect to reporting OPA discrepancies/changes (such as summarizing the corrections or updating the 2017 reports and distributing them to the Regents' committee).

Target date: Review remaining OPA certifications for additional corrections and discuss with Systemwide VP of Human Resources— January 15, 2019.

If applicable, make corrections and create a summary of changes listing or, rerun the 2017 OPA reports and distribute to the Regents' Committee – March 31, 2019.

b. Systemwide HR and local SMG Coordinators will update procedures to facilitate

more accurate reporting, including a process to ensure that changes are made timely to SLIS. Annually, Systemwide HR will provide the SMG Coordinators a deadline to update SLIS, and verify the activity is completed.

Target date: May 31, 2019.

3. Review and approval of 2017 planned activities was not always completed in a timely manner.

As part of the OPA review process, Systemwide HR is responsible for sending email reminders in the fall to the campus SMG Coordinators. Per instructions, the SMG coordinators are required to request and collect their local SMG OPA requests for the following calendar year, obtain local approvals, and as needed, forward the OPA forms to Systemwide HR for approval processing. For some SMG members, the approval authorities are at the local campus and accordingly the OPA requests do not flow through Systemwide HR. In 2016, due to a staff vacancy at UCOP that was not filled until December, the OPA email reminder did not occur for 2017 OPA. As a result, we noted that 33 of 48 OPA forms for 2017 were not approved prior to January 2017 as required by policy.

Action Plan:

Systemwide HR will send out an initial reminder regarding 2019 OPA requests and the requirement for approval in advance of activity.

Target date: Completed during our review (September 2018).

4. Compliance with OPA limits.

The updated Regents' OPA policy limits concurrent compensated activities to two per year. Soon after the policy was revised in 2016, Systemwide HR notified SMGs that there would be a transition period for those with more than two activities in an effort to comply with the new limit. In October 2018, Systemwide HR began notifying SMGs with more than two concurrent compensated OPAs that the activity limit must be met by February 1, 2019. As of November 2018, there were three SMG members that had more than two concurrent compensated OPA.

While multiple board memberships are clearly concurrent activities, some activities, such as consulting, may need follow-up or clarification to determine if the duration is limited or if it is on-going throughout a calendar year. To eliminate the need for follow-up and help with the identification of concurrent activities, the SMG OPA request form should indicate the time frame for the activity when submitted for approval.

Action Plan:

a. Systemwide HR will complete the process of notifying SMGs with more than two concurrent activities that they must be in compliance with Policy as of February 1, 2019.

Target date: February 1, 2019

b. Systemwide HR will revise the OPA request form to include the date range for compensated activities.

Target date: Completed during our review (September 2018).

5. Additional information or clarification regarding OPA

During our SMG interviews, a number of SMG members indicated that they had questions or needed additional clarification regarding OPA requirements. One area in particular was how to reflect royalty income earned in a year when there was no related effort.

Internal Audit provided Systemwide HR a list of questions and comments that were collected during this audit from SMG members.

Action Plan:

Systemwide HR will review audit comments and feedback and address these issues within the guidelines and/or FAQs that are being developed including clarification of royalty income reporting requirements.

Target date: Guidelines and/or FAQs which will include clarification regarding royalty payments - May 31, 2019.

Royalty income reporting communication to SMG Coordinators - January 31, 2019.