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

1111 Franklin Street, 5th Floor • Oakland, California 94607-5200 • (510) 987-0479 • FAX (510) 287-3334

Alexander Bustamante
SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

October 24, 2019

ACTING VICE PRESIDENT LLOYD

RE: Final Report Project No. P19A001: Outside Professional Activities

Attached is a copy of the final report for: Audit Services Project No. P19A001 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).

Matt Hicks
Systemwide Deputy Audit Officer

Attachment

cc: Senior Vice President Bustamante
        Executive Vice President Nava
        Chief of Staff Henderson
        Systemwide Associate Audit Director Cataldo
        Contractor Harrigan

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

Outside Professional Activities
Audit No. P19A001
August 2019

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 2018 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 most recently updated effective January 16, 2019. The most significant policy changes include:

- Pre-approval and post-reporting for uncompensated activities is not required with the exception that uncompensated board activities must be post-reported.

- Pre-approval and post-reporting of compensated activities is required only when compensation is over $2,500 from a single source.

- Scholarly works, including books, other publications, and speeches are not considered OPA.

- There is no limit to the number of compensated activities a SMG member may participate in, however, an SMG member can only participate in two compensated board activities.

UC has established a systemwide OPA approval and reporting process. SMG members record planned 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, Systemwide Human Resources (HR) is notified and is responsible for any further processing. Campus, UCOP, and Lab SMG Coordinators enter data 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.

The policy states that *each SMG member must file a mid-year report of all new activity undertaken in the preceding six months. Templates for collecting details for these reports will be distributed by the Office of the President. The mid-year report will be distributed to the President and the Regents' Committee responsible for oversight of compensation.*

Systemwide HR did not distribute the 2018 mid-year report until fiscal year-end. Per HR, as revisions to the policy were up for review by the Regents which would change the reporting requirements, a decision was made to defer finalizing the report until after the Regents' meeting in January 2019, and report activities consistent with the new policy which became effective at that time. At the June 2019 Regents' meeting, interim reports were provided along with the final reports.

As part of the annual OPA certification process, SMG members are provided during the first quarter of each calendar year a report generated from the SLIS which lists their

reportable 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 participant 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 who, when needed, should update the information in the SLIS. If an SMG did not plan any OPA and did not have any reportable activities, this is also indicated on the form that is signed and submitted to the SMG coordinator.

Systemwide HR downloads SMG OPA data from SLIS and prepares reports for distribution to 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 considered OPA/approved. Campus SMG Coordinators were instructed to use these boxes in an effort to reduce the over-reporting of uncompensated OPA which has occurred in prior years.

HR has requested a future enhancement to UC Path to replace SLIS. This enhancement, tentatively scheduled for FY2020-2021, will add OPA request/approval workflow and reporting functions to UC Path which will streamline the 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. HR delayed requesting 2018 SMG OPA certifications until after the revised policy was in effect so they would comply with the new requirements.

As part of our sample, we selected all SMG members who report directly to the Regents and to the President, and a sample of campus, health system, and Lawrence Berkeley National Laboratory (LBNL) SMG members. In total, we reviewed 2018 reported OPA activity of 57 SMG members or 30% of the SMG total (190).

As part of our review, we performed the following steps:
- Reviewed 2018 annual compensated and uncompensated OPA reports to determine if there were material changes from the prior year, and if the Regent's had approved an exception if there were more than two compensated board memberships.

- Reconciled reported compensated OPA activities to the 2018 California Statement of Economic Interests forms (Form 700) and inquired as to any differences.

- Reviewed SMG 2018 OPA requests, approvals, and year-end certifications to verify requests were completed as needed, required information was provided, and OPA was approved timely.

- Reviewed the Compensated OPA report for the Regents' 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. If compensation is donated, the activity is considered uncompensated OPA.

We selected 12 SMG members where we had questions regarding their reports for in-person interviews in an effort to:

- Clarify any inconsistencies between pre-approved OPA and the year-end OPA certification.

- Clarify the reason for any variances between the information on the compensated OPA forms and the California Form 700s.

- Verify that no university resources were utilized related to their activities.

- Determine if the SMG member had any questions or concerns regarding the OPA policy or process.

Overall Conclusions

As a result of our audit, we observed general adherence to OPA policy. However, we noted several areas for improvement related to approval timeliness and completeness, communication of OPA decisions, and enhanced record keeping.

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

Opportunities for Improvement and Action Plans

1. **Approval was not always obtained for all Outside Professional Activities or was not obtained in a timely manner**

   OPA Policy requires that outside professional activities for SMG members be approved in advance of initiating the activities. Although Systemwide HR receives OPA requests throughout the year, we noted two instances in which an SMG certified they had compensated 2018 OPA, but approval had not been obtained. For one of these instances, the activity and compensation amounts were omitted from the report to the Regents. We also identified one SMG who reported uncompensated 2017 OPA that had not been approved. Specific instances are as follows:

   - One SMG member certified 176 hours of 2018 OPA with compensation of $116,000, which was approved for 2017 but not for 2018. This OPA was not included on the 2018 Compensated OPA Report provided to the Regents.

   - One SMG member certified 37.5 hours of 2018 OPA with compensation of $22,800 which was not approved. This OPA was included on the 2018 Compensated OPA Report provided to the Regents. This employee is no longer with UC so further action is not required.

   - One SMG who certified uncompensated 2017 OPA which was included on the report to the Regents last year, had not yet received retroactive approval. The OPA approval request is pending with the Regents.

   Additionally, in reviewing OPA requests and approval dates, we noted that the OPA requests for seven SMGs were not approved timely. In three instances, the final approval was four to five months after the SMG initially signed the form. In one instance, final approval was seven months after the employee completed the form.

   Although there are dates to record the SMG and approver sign offs, there is not a log that captures the dates the request is forwarded/received to determine the source of any time lags. We were unable to determine if 1) the SMG member delayed forwarding the request to the initial approving authority, 2) the local SMG Coordinator delayed forwarding the request to Systemwide HR, or 3) Systemwide HR was responsible for the delays.

   Action Plan:
   Systemwide HR will obtain retroactive approval for the SMG member's 176 hours of 2018 OPA.

   Target date:
   Completed prior to issuance of this report.

For the SMG with unapproved uncompensated 2017 OPA, Systemwide HR will shepherd the process to ensure that these activities are reviewed and a determination is made regarding retroactive approval.

Target date:
October 31, 2019

Systemwide HR will institute a process for logging OPA requests and approvals including receipt and notification dates. This process will be added to the OPA Guidelines document.

Target date:
Completed prior to issuance of this report.

2. **Communication of OPA reviewer decisions needs improvement.**

   We identified three individuals (two SMG members and one SMG Coordinator) from different UC locations that did not recall receiving a communication informing them that the requested OPA was approved or, in one instance, whether or not an activity was considered reportable OPA. Depending on an SMG's organizational level, OPA requests may be approved by senior management at the campus, otherwise, approval is required by the President and/or the Chair of the Regents' Committee. There was not a uniform systemwide process to inform the SMG regarding their OPA requests.

   Action Plan:
   Systemwide HR will notify both the SMG member and the local SMG Coordinator regarding OPA determinations and approvals. This process will be added to the OPA Guidelines document and will include roles and responsibilities (e.g. SMG member, local SMG Coordinators, and Systemwide HR OPA Manager).

   Target date: Completed prior to issuance of this report.

3. **One SMG did not include his OPA compensation on the annual certification form.**

   The initial 2018 OPA certification form for one SMG did not indicate any compensation although he was pre-approved for OPA with compensation of $7,252. In response to an inquiry by HR, an email confirmation verified he was compensated. While the compensation was reflected in the report to the Regents, a corrected certification form has not been obtained.

   Action Plan:
   Systemwide HR will coordinate with the local SMG Coordinator to ensure that an updated 2018 certification form is obtained from the SMG member and is on file.

   Target date: The updated certification was obtained prior to issuance of this report.