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## Compliance, Ethical and Legal Lessons Learned from Real Life UC Incidents\*

*\* And the scars to prove it*

*Patrick Reed, University Auditor  
and  
Susan Thomas University Counsel*

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### Discussion Topics

- ✓ Ethics Briefing
- ✓ Compliance Function
- ✓ Hot Topics:
  - SAS 112
  - Information Security
  - Major Investigations
- ✓ Legal Developments

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## ETHICS BRIEFING

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### Ethics Briefing FAQ's

#### What is it?

Awareness Training on [Statement of Ethical Values](#) and [Standards of Ethical Conduct](#) for all employees.

#### Is it mandatory?

Yes, the Regents and the President have made it mandatory.

#### Is it a Consequence of Executive Compensation?

No, this has been in planning since the summer of 2005 when the Statement and Standards were approved by The Regents.

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## Ethics Briefing

- Rolled Out at ALL LOCATIONS

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## Ethics Briefing

- Rolled Out at ALL LOCATIONS
- In-Person training available
- About to Roll Out two COI Modules
  - COI for Designated Officials
  - COI for Principal Investigators
- Need Your Assistance
- *Let's Make a Deal!*

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## COMPLIANCE

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**COMPLIANCE OBJECTIVE**  
Create a culture of compliance

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Create a culture of compliance

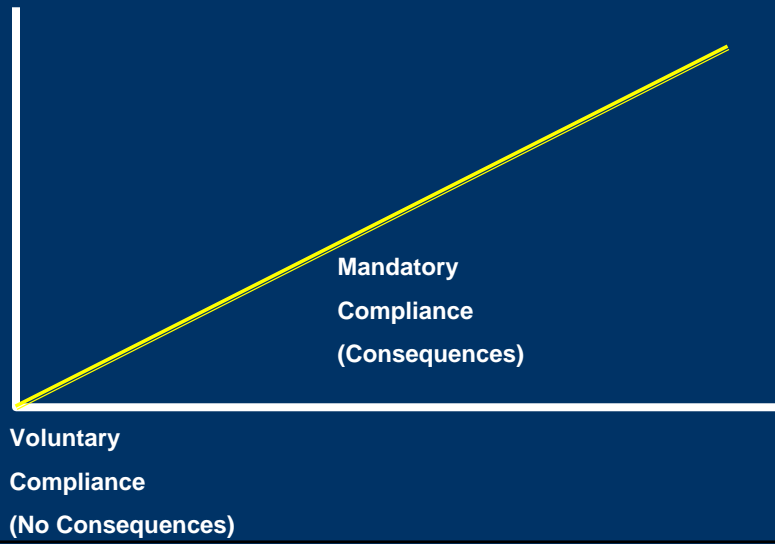


Voluntary  
Compliance  
(No Consequences)

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### COMPLIANCE OBJECTIVE

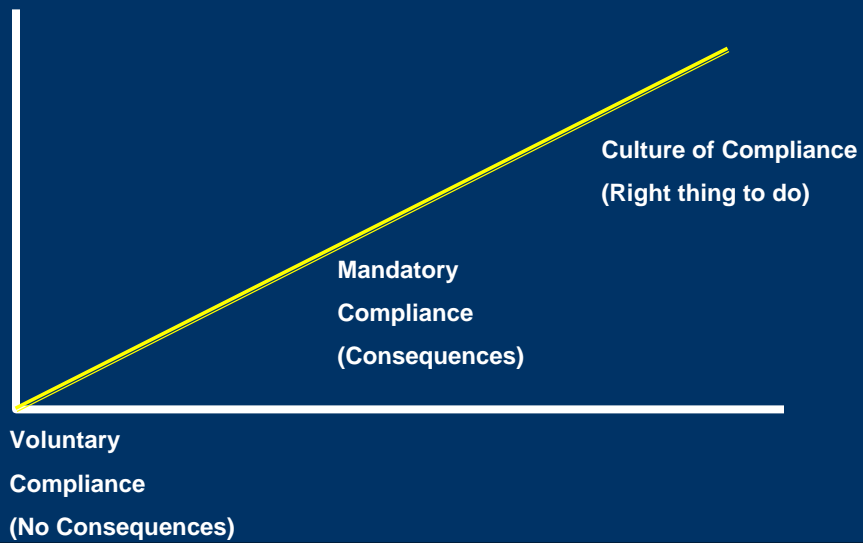
Create a culture of compliance



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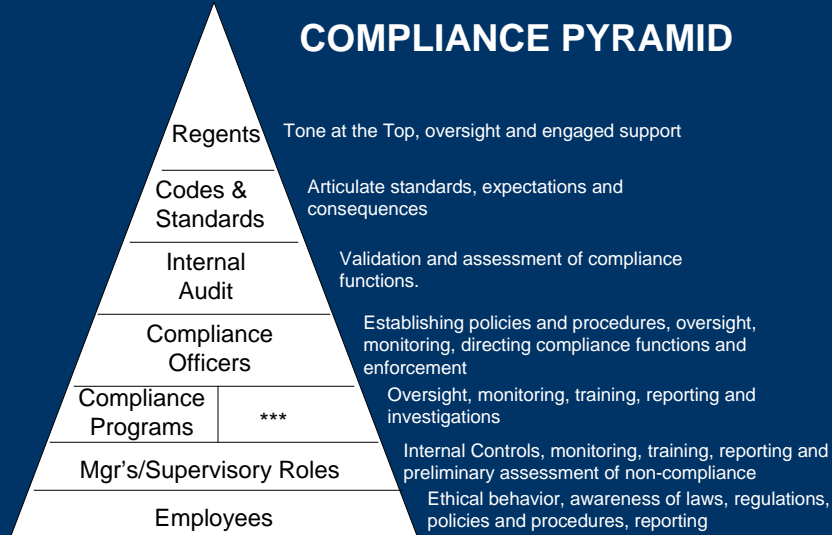
### COMPLIANCE OBJECTIVE

Create a culture of compliance



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## COMPLIANCE PYRAMID



\*\*\* Activities not covered by unique functional compliance programs

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## Compliance Program Structure

- Not yet determined
- Recruitment for SVP still underway
- Likely to have components at three levels:
  - Location
  - Functional (e.g, EH&S, research, health sciences, athletics)
  - Systemwide
- Likely more dotted than solid lines
- Presumably based on Federal Sentencing Guidelines

## Elements of a Compliance Program\*

- Board Oversight & Reporting
- Compliance Policies & Standards
- Designated Official
- Compliance Training for Affected Employees
- Regular Monitoring & Auditing
- Anonymous Reporting Mechanism & Investigations Capability
- Enforcement & Discipline Mechanism

\* Per Federal Sentencing Guidelines

### COMPLIANCE MATRIX & ELEMENTS OF A COMPLIANCE PROGRAM

	Board Oversight and Reporting	Compliance Policies and Standards	Designated Official	Compliance Training for Affected Employees	Regular Auditing & Monitoring	Anonymous Reporting Mechanism	Enforcement & Discipline Mechanism
Research							
Human Animal Sci. Mis. Admin.							
Health Sciences							
EH&S							
HR & Comp							
Information: Privacy Security							
Athletics							
Donors							
COI							
Financial							
Regents Policies							

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## HOT TOPICS

1. SAS 112
2. Information Security
3. Common Investigation Issues

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### **SAS 112** *Communicating Internal Control Related Matters Identified in an Audit*

- Is new guidance that our external auditors have to comply with in performing UC's audit
- Requires identification of **KEY CONTROLS** over financial reporting
- Some key controls are carried out throughout the University at the department level
- Requires evaluation of key controls against stiffer criteria and requires reporting the deficiencies to the Board of Regents (& potentially HHS in A-133 audit)
- Items can be labeled deficiencies, significant deficiencies or material weaknesses as evaluated against criteria that include consideration of the likelihood of what **could** happen
- Effective for 2006-07 audit and applies to the entire period under audit

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## **SAS 112 *Communicating Internal Control Related Matters Identified in an Audit***

### **University Approach to SAS 112**

- Location Controllers have met with PwC to identify Key Controls
- A website has been created to capture key controls from each location (<http://webdev.ucop.edu/indemo/sas/>)
- Everyone has read only access to the website so you can check out your location's key controls
- Examples of key controls carried out at the Department Level include the following excerpted from the UCB portion of the website:

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## **SAS 112 *Communicating Internal Control Related Matters Identified in an Audit***

### **Key Controls at the Department Level**

- Departments review the monthly Payroll Expense Distribution Report to ensure that payroll expenses are accurate
- Requisitions and PO's are reviewed and approved at the department level.
- Department reviews their General Ledger Detail Transaction Verification Report on a monthly basis to ensure proper recording of procurement card purchases
- Departments conduct physical inventories of equipment every two years. Equipment Management ensures the inventory is conducted every two years.

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*SAS 112 Communicating Internal Control Related Matters Identified in an Audit*

**CRITICAL SAS 112 FACT ABOUT  
CONTROL DOCUMENTATION**

***IF IT ISN'T DOCUMENTED—***

***IT DIDN'T  
HAPPEN!***

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*SAS 112 Communicating Internal Control Related Matters Identified in an Audit*

**What Should a Business Officer Do?**

- ✓ Learn your location's Key Controls at the department level
- ✓ Assess your controls with special attention to documentation
- ✓ Be alert to "Town Hall" meetings and other communications from your controller
- ✓ Consult with your peers for best practices and practical tips
- ✓ Feel free to contact the controller or your local auditors for assistance

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## Information Security—Recent Breach Events

- UCLA Database
- UCSF Server
- UCSF Research Data--Desktops

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## Information Security— Recent Breach Events

### Questions Raised

- ✓ What information is stored?
- ✓ Why is it maintained?
- ✓ Necessary?
- ✓ How protected? Password? Encrypted?
- ✓ Is it backed up?
- ✓ Are there any contractual obligations under data use agreements?

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## Information Security— Recent Breach Events

### Advice From the CIO

- ✓ Security is **EVERYONE'S** responsibility
- ✓ The general security web site has valuable information and references (<http://www.ucop.edu/irc/itsec/uc/welcome.html>)
- ✓ Use Strong Passwords & Change Regularly (Don't share or post)
- ✓ Ensure all devices are up to date with anti-virus and operating system patches
- ✓ Know what sensitive data (e.g. SSN's) is on your computers and remove or protect (encrypt)
- ✓ Use web based security training slides available from above site

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## Common Investigation Issues

### Characteristics

- Virtually all involve fraudulent expenditures/procurements
- Two involve fraudulent vendors (non-existent/DBA)
- Several involve research funds & question the PI as a control point
- Several raise questions about the role of MSO in the control process
- Most had gone on for some time (over a year—up to four years)
- All had significant red flags-funny documentation, factors that should have raised suspicions (e.g. high end personal electronics, personal spending anomalies)
- Several had been previously reported but suspicion was not elevated to the right place (LDO) or adequately addressed
- Most were ultimately reported by employees doing their jobs

Control Issues

- Ability to establish vendors without sufficient checking
- Role of procurement when sole sourcing?
- Procurements with no contract or PO?
- Split invoices on low value purchases—lack of detection
- Inadequate review of ledgers
- Inadequate review of charges to sponsored projects
- PAN process adequate basis for approval?
- Management override
- Failure of supervision-by PI's
- Compromised or lack of separation of duties

Control Issues—  
Separation of Duties

Theoretical Separation

- Authorize
- Execute
- Approve for Payment
- Payment Process
- Recording
- Reconciliation / Review of Ledgers

Typical Procurement

- Chair, PI, MSO etc.
- MSO/Procurement
- Chair, PI, MSO, etc.
- Accounts Payable
- MSO
- MSO

Low Value Purchase

- Chair, PI, MSO etc.
- MSO
- Chair, PI,MSO
- N/A
- MSO
- MSO

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Control Issues—

Separation of Duties

Theoretical Separation

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- MSO

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**LEGAL DEVELOPMENTS**