The Regents of the University of California

COMMITTEE ON AUDIT
March 15, 2001

The Committee on Audit met on the above date at the James E. West Alumni Center, Los Angeles campus.

Members present: Regents Connerly, Davies, S. Johnson, Kohn, Lee, Moores, Parsky, and Sayles

In attendance: Regents Atkinson, Bagley, Fong, Hopkinson, O. Johnson, Kozberg, Lansing, Marcus, Miura, Montoya, and Preuss, Regents-designate T. Davis, Morrison, and Seymour, Faculty Representatives Cowan and Viswanathan, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young, Provost King, Senior Vice Presidents Darling and Mullinix, Vice President Broome, University Auditor Reed, Chancellors Berdahl, Cicerone, Tomlinson-Keasey, and Vanderhoef, Executive Vice Chancellor Simpson representing Chancellor Greenwood, and Recording Secretary Nietfeld

The meeting convened at 2:20 p.m. with Committee Chair Connerly presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of January 18, 2001 were approved.

2. **APPROVAL OF EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2001**

The President recommended that the annual external audit plan for the year ending June 30, 2001 be approved.

> [The plan was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

The Committee was informed that the annual plan of The Regents' external auditor provides for a financial audit of the University of California, including the Department of Energy National Laboratories and the University of California Retirement System. Additional audit coverage by the external auditor includes the National Collegiate Athletic Association (NCAA) audit, the Revenue Bond Indenture audits, audits of the five individual medical centers, and the federal grants and contracts (A-133) audits.

Vice President Broome recalled that at the November 1999 meeting The Regents approved the appointment of PricewaterhouseCoopers LLP (PWC) as the external auditor for the three-year period beginning with the fiscal year ending June 30, 2000. Based on the November 1999 acceptance of the PricewaterhouseCoopers proposal, the cost of the audit program for the fiscal year ending June 30, 2001 is $2,165,000, which includes out-of-pocket expenses of $180,000. The FY 2001 fee includes $635,000 related to an increase in the scope of work from that included in the original proposal. Of the total fee of $2,165,000, an amount of $1,745,000 is fixed. The $420,000 amount for the San Francisco Medical Center is an estimate; the final fee will depend on the actual hours incurred.

Mr. Bob Forrester, Client Service Partner, noted that the scope of the audit and the services that the firm will provide are set forth in the plan. The auditors intend to visit UC Merced for the first time during the course of the audit and will perform their second audit of the UCSF medical center. There will be continuing implementation of new Governmental Accounting Standards Board requirements. Mr. Forrester noted that, as set forth in the plan, it is the responsibility of the external auditors to conduct an audit of the general-purpose financial statements in accordance with generally accepted auditing standards and government accounting standards. University management has the primary responsibility for adopting sound accounting policies, maintaining an adequate and effective system of accounts, safeguarding assets, and devising a system of internal controls that will, among other things, help to ensure the preparation of proper financial statements, compliance with applicable laws and regulations, and execution of the operating directives of management. The auditors' procedures aim to address a set of questions that one would ask of any organization, but particularly of a public trust such as the University of California.

Mr. Forrester noted that the time table for the audit, as detailed in the report, calls for the auditors to report informally to management on the results of the interim phase of the audit and confirm the focus and schedule of the final phase of the audit in the spring. The management letter will be issued to The Regents on October 31, 2001, and the presentation of the audit report and required communications to The Regents will occur at the November 2001 meeting.

The components of the audit include efforts spent at the Office of the President on financial statements and administration (14 percent). The audit of the ten campuses will encompass 17 percent of the audit, while separate reports on the five medical centers will constitute 37 percent. Other areas of activity include computer audit procedures (4 percent), Treasury and six separate bond reports (7 percent), three retirement plans with separate reports (14 percent), and separate reports on NCAA expenditures at four campuses (2 percent).

Mr. Gary Garbrecht, medical center partner, reported that patient volumes remain strong; in the aggregate, earnings have improved during calendar year 2000, although there are weaknesses in selected locations.

Mr. Forrester discussed the plan to restructure PricewaterhouseCoopers to adopt to the new business environment and be assured of serving clients such as the University without violating the rules that govern auditor independence. The firm of PricewaterhouseCoopers will include the assurance practice, tax and legal services, and other business advisory services as well as continuing to conduct audits and most of the other services provided to the University. Consulting functions will be developed into one or more separate businesses.

As discussed with the Committee in January, a major focus of the audit will be sustainable support for medical education. The auditors will continue to assist the San Francisco campus with the reabsorption of the medical center and the development of an information technology strategy. They are working with the Los Alamos National Laboratory to put into commercial use a software project that simulates transportation systems around the country, as well as training teams at the Lawrence Berkeley National Laboratory in controls self-assessment. Other projects include working with the campuses on accounting processes for their foundations and development offices.

Committee Chair Connerly noted the intention of Vice President Broome over the coming year to carefully monitor how the auditors' time is spent and asked for more information on how this will be carried out. Mr. Forrester explained that PWC had designated for the work an administrative manager who has done detailed budgets. There will be a system of account codes that will enable the auditors to track how their time is spent. A major objective will be to establish the account on a financially viable basis for the firm and the University this year.

Vice President Broome observed that the first year of an audit of a large institution such as the University of California is always difficult. The intention is to develop a relationship that will be of benefit to both the auditors and the University.

In response to a question from Regent Hopkinson, Mr. Forrester recalled that audit of the Department of Energy Laboratories is performed by the DOE in conjunction with KPMG and the internal auditors. This year, PWC will participate in planning sessions for this audit.

Vice President Broome continued that the balance sheets of the laboratories are not included in the University's accounts. In the past, the external auditors have been satisfied with the inclusion of the laboratories' revenues and expenses in the University's overall financial statements.

Mr. Forrester believed that the auditors had performed enough work to satisfy the auditors of the appropriateness of including the accounts in the financial statements. They rely on KPMG and the internal audit departments to perform the overall audits for the laboratories.

Regent Hopkinson asked that either the Committee or she be briefed more fully on the audit process at the laboratories and that there be a report to the Regents on the adequacy of this process. Committee Chair Connerly asked that Vice President Broome take the lead role.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

The meeting adjourned at 2:35 p.m.

Attest:

Secretary