

The Regents of the University of California

**COMMITTEE ON COMPLIANCE AND AUDIT**

March 13-14, 2013

The Committee on Compliance and Audit met on the above dates at UCSF–Mission Bay Conference Center, San Francisco.

Members Present: Regents De La Peña, Ruiz, Stein, and Zettel; Advisory members Feingold and Powell; Staff Advisors Barton and Smith

In attendance: Regent-designate Flores, Faculty Representative Jacob, Associate Secretary Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Provost Dorr, Chief Financial Officer Taylor, and Recording Secretary Johns

The meeting convened at 3:05 p.m. with Committee Chair Zettel presiding.

**1. UPDATE ON UCPATH INITIATIVE**

Chief Financial Officer Taylor provided an update on the development of the University's new payroll and human resources system, UCPATH. He reported that the project was making progress toward a July 2015 transfer to the new system for all campuses and medical centers. He anticipated that the first phase of implementation would take place on July 1, 2014. The first phase would take place at UCLA, UC Merced, UC Santa Cruz, and the Office of the President; the second phase at UC Riverside, UC San Diego, UC Davis, and UC Berkeley; the third phase at the remaining campuses. The goal is to end the use of the mainframe computer system entirely in July 2015. Mr. Taylor noted that the University had hoped to begin the first phase in early 2014, but that the project was about three months behind schedule. One reason for the delay was the need for at least six months of parallel payroll system testing to ensure that the new system is functioning properly before switching over completely. Chief financial officers of other institutions have advised against a "big bang" changeover, in which the old system would be shut down immediately. Parallel payroll testing should begin in September or October 2013 and continue for six to nine months. The project was about seven or eight percent over budget, due to unanticipated additional programming and expansion of the scope of the project. The scope expansion concerned the interface of payroll with the general ledger and would contribute to the foundation of a future common UC financial system. The UCPATH center in Riverside would serve as the shared services center for all the campuses, providing transactional support for payroll and human resources functions. The University had purchased the building and had hired three core staff members. Sixteen more staff would be engaged by July, and Mr. Taylor anticipated that 150-160 staff would be at the center by June 2014, ready for the transition to the new UCPATH system.

In response to questions by Staff Advisor Smith, Mr. Taylor stated that the University aims to have those 150-160 staff hired and in place by April 2014 to allow for three months of testing and training, to ensure that service quality is at a high level. Hiring would occur in phases. He estimated that in July 2015 there would be approximately 450 permanent positions and an additional 50 contract positions. The volume and workload would not be known until the new system was running for all the campuses. The staff in contract positions would address additional workload. If it is necessary to keep these staff members, the positions would be converted to permanent positions.

Mr. Smith asked if the staff would be employees of the Office of the President, UC Riverside, or another entity. Mr. Taylor responded that staff would be hired as employees of the Office of the President.

Committee Chair Zettel asked if, among these staff members, many would be transfers from elsewhere in the UC system, or if many would be new to UC. Mr. Taylor responded that current UC employees would have the first opportunity to apply for these positions. Job fairs have been held on campuses to inform employees about this opportunity.

Committee Chair Zettel stated that the UCPath center would be a positive benefit for the Riverside community, a healthy infusion into the local economy. She expressed appreciation for the University's careful approach to ensure that the complex new systems would function effectively, in light of problems with new technologies that have arisen in some State entities and received media attention. Mr. Taylor observed that Oracle had been diligent and helpful. He expressed an overall satisfaction with the University's partnership with Oracle and with the existing timeline and budget.

Mr. Smith observed that campus staff would not see a future for themselves in the payroll function. He expressed staff concerns regarding the parallel testing that would continue running the old payroll system, and the later date for full implementation of the new system. Mr. Taylor responded that the most significant risk in this project was not implementation of a new system, but maintenance of the existing system, which no longer functions as it should and frequently produces errors. UC staff make tremendous efforts to ensure that pay is delivered correctly. He acknowledged that campus payroll positions do not have a future. Some payroll staff have begun to seek other positions. The Office of the President has suggested the development of retention programs on the campuses to address this.

Staff Advisor Barton asked if the delay in implementation would result in a slowdown in recruiting for the initial positions at the UCPath center. Mr. Taylor responded that there would be a slight slowdown in recruiting for some entry-level jobs. He anticipated that the top 29 positions would be filled by the coming summer.

## 2. **RESULTS OF INTERNAL AUDIT QUALITY ASSESSMENT REVIEW**

[Background material was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Chief Compliance and Audit Officer Vacca noted that this quality assessment review is required by the Institute of Internal Auditors every five years. The review team leader was Raina Rose Tagle of Baker Tilly.

Ms. Tagle explained that the starting point of the review was a self-assessment by UC's internal audit program. The self-assessment was carried out at the campus level as well as systemwide and was well organized and thorough. The review team validated the results of the self-assessment and spoke with internal audit stakeholders throughout the UC system. The review found that UC's internal audit function "generally conforms" to professional standards. Ms. Tagle stressed that "generally conforms" is the highest in a scale of three ratings suggested by the Institute of Internal Auditors. The review found that internal audit, compliance, and enterprise risk management are closely linked at UC, as they are at other comparable institutions. There were no observations or concerns concerning compliance with standards.

Ms. Tagle stated that UC's internal audit function was working effectively with limited resources and striving for efficiency. UC stakeholders expressed positive views of the internal audit program, describing it as collaborative and forward-looking. Internal audit has worked to expand its relationships within the University, its advisory services, and its participation in campus initiatives.

Ms. Tagle then discussed recommendations from the review. The role of systemwide enterprise risk management could be clarified; there is some confusion at the University about this role, and about the coordination of risk assessment activities. There could also be greater clarity about the respective roles of internal audit and compliance. The internal audit program could better communicate its vision and should continue its work to provide more advisory services. The visibility of campus deputy internal audit leaders, those below the level of the audit director, could be increased; this would assist with succession planning. There are opportunities to improve knowledge sharing in internal audit among the campuses.

Regent Ruiz asked how the results of the review compared to the last review. Ms. Tagle responded that the last quality assessment review also resulted in a rating of "generally conforms." She stated her view that based on the content of the previous review, the University had made progress and the internal audit function had continued to evolve. Ms. Vacca added that UC internal audit has made noticeable progress in technology expertise and reporting functions, and is becoming more an advisory partner of management.

Regent Ruiz asked how changes in UC's internal audit program compare to changes at other institutions. Ms. Tagle responded that the internal audit function in higher education

continues to evolve; developments similar to those at UC could be observed at many universities. UC is a highly complex institution and has an outstanding internal audit program.

Regent Stein asked about the lack of clarity regarding the distinctive roles of internal audit and compliance. Ms. Tagle responded that greater clarity would make these functions more effective. Management should understand its position in relation to these two functions.

Ms. Vacca recognized the work of Systemwide Audit Director Matthew Hicks in UC's internal audit self-assessment.

### 3. **INTERNAL AUDIT ACTIVITIES REPORT**

[Background material was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Systemwide Audit Director Matthew Hicks briefly presented this report, a quarterly update on internal audit activities. Audit productivity was at expected levels, with 115 reports having been issued. Increased attention to Management Corrective Actions (MCAs) had resulted in a significant decrease in the number of open MCAs. The current inventory of open MCAs was 618, compared to 959 at this time the previous year. Audit observations concerning cash controls and information technology security were consistent with past experience. Mr. Hicks observed that these two areas of control are generally decentralized. There were no unexpected significant themes in the observations.

### 4. **APPROVAL OF THE SCOPE OF THE EXTERNAL AUDIT FOR THE YEAR ENDING JUNE 30, 2013**

The President recommended that the scope of the external audit of the University for the year ending June 30, 2013, which includes the following reports, be approved:

- A. University of California system
- B. One combined report containing financial statements for all five University of California Medical Centers
- C. University of California Retirement Plan, including the PERS-VERIP, University Retirement Savings Program, including the Defined Contribution, 403(b) and 457(b) Plans
- D. National Collegiate Athletic Association (NCAA) audit procedures
- E. Federal grants and contracts (A-133) audit

[Background material was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Associate Vice President and Systemwide Controller Peggy Arrivas drew attention to the fact that the proposed scope of the external audit included a single combined report for all UC medical centers, rather than separate reports for each medical center. Information for the individual medical centers would be shown separately in columns.

Committee Chair Zettel explained that due to lack of a quorum, action on this item would be taken the following day.

5. **APPROVAL OF EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2013**

The President recommended that the external audit plan of the University for the year ending June 30, 2013, as shown in Attachment 1, and the fees shown in Attachments 2 and 3, be approved.

[Background material was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

PricewaterhouseCoopers (PwC) representative Joan Murphy explained that PwC's Audit and Communications Plan for 2013, the service plan for the University, is similar to plans presented in previous years, with some changes. PwC continues to accelerate the audit planning and accomplish some work if possible before August or September. In 2012, PwC made a conscious effort to accelerate the A-133 audit and move the work to an earlier part of the year. Over 20 teams are at work on the UC audit. There is a significant amount of coordination and communication with UC staff. She noted that the University would implement a new Governmental Accounting Standards Board (GASB) pronouncement, GASB Statement No. 60, this year. Changes in information technology were being implemented at the UCLA and UCSF medical centers, and these would be incorporated in the audit.

Committee Chair Zettel asked about possible accounting issues that might arise with regard to the University's affiliation with the Children's Hospital of Oakland. Associate Vice President and Systemwide Controller Peggy Arrivas responded that the Children's Hospital of Oakland is a private, not-for-profit entity. According to the memorandum of understanding, when the transaction closes, the accounting model for the Children's Hospital will shift to the GASB model, in conformance with the University's financial statements. The University is addressing this matter. Ms. Arrivas noted that some accounting issues still needed to be resolved. A full due diligence team was at work, with assistance from the Office of the President.

Regent De La Peña observed that the transaction with the Children's Hospital of Oakland is predicated on maintaining a private designation. He asked about changes in accounting and stressed that there were significant implications if the private status were not

maintained. Ms. Arrivas responded that accounting requirements for making the determination to follow GASB are different from legal rules that apply to maintaining the private status. The requirement to follow GASB would not affect the ability to maintain private status for the Children's Hospital of Oakland.

Committee Chair Zettel referred to one of the audit objectives stated in the Audit and Communications Plan: "Communicate in writing to management and the Committee all material weaknesses and significant deficiencies identified during the audit. In addition, communicate in writing to management all deficiencies in internal control, of consequence, over financial reporting identified during the audits." She asked if PwC would not also share this latter information with the Committee. Ms. Murphy responded that PwC has done so in the past. Professional standards require that PwC report material weaknesses and significant deficiencies to the Committee. PwC's practice with the University has been to share any recommendations of substance, whether control deficiencies or not, with the Committee.

Committee Chair Zettel stated that she would like to receive a copy of the written communications, even if they concern matters that are not deemed material and are not required to be reported to the Committee. Ms. Murphy recalled that PwC issues chancellors' letters for each UC location. In aggregating recommendations that are reported to the Regents, PwC checks for recurring themes or fundamental issues. The chancellors' letters, to which the Regents have access, contain local findings.

Committee Chair Zettel referred to PwC statements in the Audit and Communications Plan on regulatory developments. She asked about the U.S. Securities and Exchange Commission (SEC) July 2012 report on the municipal securities market. Ms. Murphy responded that the SEC has given some indications that it believes that the municipal securities market needs more regulation and might require more frequent reporting. This would create significant additional work and regulation for issuers of municipal securities; UC is one of these issuers. Chief Financial Officer Taylor stated that he serves on the Municipal Securities Rulemaking Board. The Board was not enthusiastic about the content of the SEC report. Increased regulation would be so burdensome to the University that UC could not access the municipal securities market. He stated his view that the SEC would be applying a standard of corporate accounting and corporate financial statements to the municipal securities market. He anticipated that many State and local governments and school districts would protest the current draft of this proposal if it were to go forward.

Committee Chair Zettel asked if the fact that the UCLA and UCSF Medical Centers use different information technology systems causes difficulties for UC's endeavors to integrate its systems. Ms. Murphy responded that the different systems are used for different purposes. UCSF uses a PeopleSoft system for its general ledger; EPIC is a patient information system used at the UCLA Medical Center. She stated that the use of these different systems would not be problematic.

Committee Chair Zettel asked about the implications of the Auditing Standards Board's release of new Statements on Auditing Standards (SASs) 122-125, also known as the "Clarity Project." Ms. Murphy responded that some aspects of the Clarity Project would influence the PwC audit of the University, while others would not. The Clarity Project prescribes the audit approach for a multi-location entity, decisions about which accounts to audit and at which locations. There are also implications for communications between an auditor on a local team and the group auditor, the firm opining on overall consolidated financial statements.

Committee Chair Zettel explained that due to lack of a quorum, action on this item would be taken the following day.

## 6. **SUMMARY OF RESULTS OF THE UNIVERSITY'S 2012 A-133 AUDIT**

[Background material was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Associate Vice President and Systemwide Controller Peggy Arrivas presented the report on the University's A-133 audit. There were nine findings in the current audit, compared to three the previous year. She attributed this to reductions in staff as well as staff time devoted to the new payroll system project. The University was short-staffed in meeting certain ongoing compliance requirements for the A-133 audit. Another factor is that external audit teams do not visit each campus every year for this audit; campuses might neglect requirements if they are not visited for a number of years in a row.

Committee Chair Zettel referred to the increase in commercial paper debt over the previous year. She asked about the rationale for use of general revenue bonds and commercial paper to cover some of the University's operations debt. Chief Financial Officer Taylor noted that \$500 million in commercial paper debt was listed for operations. He recalled that about 19 months earlier, the State's cash balances had fallen to low levels. The State requested that the University deposit \$1 billion of its cash into the State Agency Investment Fund, which is similar to the UC Short Term Investment Pool, in order to raise the State's cash balances. This would allow the State to receive high ratings from the rating agencies for the short-term market and borrow enough money to continue operations over a four-month period in early fiscal year 2011-12. The University agreed to the State's request, drawing \$500 million on taxable commercial paper. The State is expected to pay back UC's funds on April 23, and the University then intends to pay down the commercial paper debt entirely.

Committee Chair Zettel asked about trends in the University's net assets. She stated that it was troubling to observe that UC continues to spend down its resources due to the lack of State funding and the cost of health care and retirement obligations. Ms. Arrivas responded that the trends were related to accounting standards. The University has had pension and post-retirement benefit liabilities for a number of years, but had started reporting them in its financial statements five years earlier. This has driven down UC's net position. In addition, she recalled that as of 2010, the University's pension plan was

no longer fully funded, roughly concurrent with a decline in the stock market. These factors have driven down net assets. Mr. Taylor added that rating agencies are aware of these trends. Although the University had just closed a bond issue and saved, in 2013 dollars, \$201 million in future debt service costs, Moody's has placed the University on a status of "negative outlook." Moody's did not downgrade the University's credit, but called attention to the trends; if the trends are not reversed in the future, UC ratings might be downgraded.

Committee Chair Zettel referred to the funded status of the UC Retirement Plan (UCRP). She asked if PricewaterhouseCoopers (PwC) was comfortable with the assumptions used by the University. PwC representative Joan Murphy responded in the affirmative. PwC uses its own actuaries to review the UCRP assumptions, with a significant degree of scrutiny. None of the current assumptions were found to be aggressive or unusual.

Committee Chair Zettel asked if any of the findings in the report were of particular concern to PwC. Ms. Murphy responded that none of the findings rose to the level of a significant control deficiency or material non-compliance. PwC representative Ian Fleming concurred that there were no material findings, but noted that there had been an increase in the volume of findings. No individual finding rose to a level of concern that would affect PwC's opinion on compliance.

Committee Chair Zettel asked if the University's responses to the findings were reasonable. Mr. Fleming responded in the affirmative. Ms. Arrivas added that all findings are shared with all the campuses, as part of a process of continuous improvement. She observed that there could never be an A-133 report with no findings, because of the low threshold for reporting findings and the large scale of the University.

In response to a question by Regent Ruiz, Ms. Arrivas explained that one of the report findings concerned failure to conduct a biennial physical inventory at two UC locations. Some pieces of University equipment, a small number systemwide, have been purchased with federal funds and must be inventoried every two years. One campus did not conduct the inventory on time due to a new system installation. Another campus did not complete the inventory or ensure that all departments responded. Ms. Arrivas concluded that the University has not lost any equipment and its federal grants are not at risk.

## 7. **ETHICS AND COMPLIANCE ACTIVITIES REPORT**

[Background material was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Chief Compliance and Audit Officer Vacca highlighted the most significant event of the past quarter, the Systemwide Compliance and Audit Symposium, which drew over 500 participants. Training and information were provided by subject matter experts. Key sessions from the Symposium would be made available as webinars.

The Committee recessed at 4:20 p.m.



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The Committee reconvened on March 14, 2013 at 10:10 a.m. with Committee Chair Zettel presiding.

Members Present: Regents De La Peña, Kieffer, Mendelson, Ruiz, Stein, and Zettel; Ex officio member Lansing; Advisory members Feingold and Powell; Staff Advisors Barton and Smith

In attendance: Regents Blum, Gould, Island, Pattiz, Reiss, Rubenstein, and Yudof, Regents-designate Flores and Schultz, Faculty Representative Jacob, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Duckett, Mara, and Sakaki, Chancellors Desmond-Hellmann, Drake, and Yang, Acting Chancellor Conoley, and Recording Secretary Johns

**8. APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of January 15, 2013 were approved.

**9. APPROVAL OF THE SCOPE OF THE EXTERNAL AUDIT FOR THE YEAR ENDING JUNE 30, 2013, CONTINUED**

The President recommended that the scope of the external audit of the University for the year ending June 30, 2013, which includes the following reports, be approved:

- A. University of California system
- B. One combined report containing financial statements for all five University of California Medical Centers
- C. University of California Retirement Plan, including the PERS-VERIP, University Retirement Savings Program, including the Defined Contribution, 403(b) and 457(b) Plans
- D. National Collegiate Athletic Association (NCAA) audit procedures
- E. Federal grants and contracts (A-133) audit

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

10. **APPROVAL OF EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2013, CONTINUED**

The President recommended that the external audit plan of the University for the year ending June 30, 2013, as shown in Attachment 1, and the fees shown in Attachments 2 and 3, be approved.

[Background material was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

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

11. **ETHICS AND COMPLIANCE ANNUAL BOARD EDUCATION**

[Background material was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Chief Compliance and Audit Officer Vacca began her presentation by calling attention to the fact that there are at least 65 regulatory agencies with an interest in the University's activities on a daily basis. In order to anticipate risk in this higher education context, one must consider a number of variables: the complexity of the University, its diverse culture, its diverse risks, the challenges to its sustainability in a competitive environment of finite resources, the importance of supporting an entrepreneurial spirit, and an increased demand for accountability and transparency.

Ms. Vacca discussed different forms of risk intelligence, from those based on single individuals, to larger groups, to the entire organization, and how the University might become a more "risk-intelligent" organization. The University should endeavor to anticipate risks in advance rather than merely reacting to events.

Ms. Vacca recalled that the Regents approved the adoption of the Statement of Ethical Values and Standards of Ethical Conduct in May 2005 and the UC Ethics and Compliance Program in July 2008. She briefly described how oversight functions throughout the system. Subject matter experts and existing resources are leveraged to educate employees about risk.

Ms. Vacca enumerated some emerging compliance trends and concerns for institutions of higher education. One is the management of youth activities. Approximately 20 percent of the students in every incoming freshman class are minors, less than 18 years of age. Recent incidents at colleges and universities have focused attention on the protection of minors in athletics, but Ms. Vacca stressed that minors participate in many UC campus activities, not only athletics. Other important areas of concern are the prevention of

violence on campus and the maintenance of a safe environment; data privacy and security, especially in areas such as health care and human subject research; reputational risk, and campus response and prevention in the context of social media, which often disseminate incorrect or misleading information; growing complexity in third-party relationships, especially in health care; export controls; conflicts of interest; fraud, waste, and abuse; and increased regulatory activity by outside agencies.

Another area of emerging risk for the University is the increasing scope of its international activities. There are general needs for establishing legal structures, implementing financial controls, protecting data privacy and security, and considering health and safety issues as well as different cultural environments. Ms. Vacca stated that the University's measures for data privacy and security in international activities needed to be further developed; this was an area now being focused on. There are potential risks in the use of mobile devices and laptop computers with UC information in foreign countries. The U. S. Department of Justice has an interest in actions taken by the University to prevent corruption and bribery. UC researchers may be subject to laws such as the Foreign Corrupt Practices Act and the U.K. Bribery Act. The Office of Ethics, Compliance and Audit Services has developed numerous programmatic responses to UC global engagement risks.

Ms. Vacca briefly outlined the governance responsibilities of the Board to act in the best interests of the University and to be faithful to the University's mission, expressed in the duties of care, loyalty, and obedience. She presented examples of the Board's due diligence and fiduciary duties. She stressed the critical importance of the tone set by the leadership of the University.

Committee Chair Zettel stated that the focus on UC's international activities is especially relevant. The risk involved in taking laptop computers across borders is a motivation for the development of cloud computing.

The meeting adjourned at 10:40 a.m.

Attest:

Secretary and Chief of Staff

## ***Our Deliverables***

As part of our service to the University, we provide advice on emerging accounting and reporting issues and provide certain other services. Refer to the table below for a listing of services we expect to provide. For 2012 these services required over 28,000 hours. Prior to commencing any other services, we are required to obtain preapproval from the Committee or the Committee's designee pursuant to the University's preapproval policy for its independent auditor.

<b>Audit Opinions</b>	<ul style="list-style-type: none"> <li>■ Report on the financial statements of the University of California</li> <li>■ Report on the financial statements of the five Medical Centers</li> <li>■ Report on the University of California Retirement System</li> <li>■ Reports in accordance with OMB Circular A-133, including:               <ul style="list-style-type: none"> <li>- Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></li> <li>- Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance</li> </ul> </li> <li>■ Report on the University of California Cash Contributions to the Retirement System</li> <li>■ Report on the financial statements of the newly formed University Captive Insurance Company</li> </ul>
<b>Internal Control Observations</b>	<ul style="list-style-type: none"> <li>■ Report to the Committee on control and process deficiencies and observations, including material weaknesses and significant deficiencies (Regents Letter)</li> <li>■ Reports to the campus Chancellors on control and process deficiencies and observations (Chancellor Letters)</li> </ul>
<b>Agreed-Upon Procedures</b>	<ul style="list-style-type: none"> <li>■ Agreed-upon procedures related to the sale of Mortgage Origination Program and Supplemental Home Loan Program loans</li> <li>■ Agreed-upon procedures on Intercollegiate Athletic Departments (NCAA requirements) for six campuses</li> </ul>
<b>Other Services</b>	<ul style="list-style-type: none"> <li>■ Reviews in connection with bond offerings</li> <li>■ Accounting consultations and other assistance associated with emerging accounting and reporting issues and complex transactions</li> <li>■ Financial reporting observations</li> </ul>
<b>Committee Reporting</b>	<ul style="list-style-type: none"> <li>■ Audit and communications plan</li> <li>■ Results of audits and required communications</li> </ul>

**PricewaterhouseCoopers  
Audit Fees**

	<u>Actual 2011</u>	<u>Actual 2012</u>	<u>Proposed 2013</u>
Core Audit, including expenses			
UC	\$ 3,619,000	\$ 3,619,000	\$ 3,685,700
National Laboratories	<u>62,000</u>	<u>62,000</u>	<u>64,000</u>
	3,681,000	3,681,000	3,749,700
(1) Required Scope Changes:			
Recurring - see detail below	-	(58,100)	5,250
Nonrecurring - see detail below	-	-	-
(2) Increase		126,800	187,500
Sub-total Core Audit Cost	<u>3,681,000</u>	<u>3,749,700</u>	<u>3,942,450</u>
Expanded Scope at the National Laboratory (Berkeley)	-	-	-
Total Audit Cost	<u>\$ 3,681,000</u>	<u>\$ 3,749,700</u>	<u>\$ 3,942,450</u>

(1) Ongoing scope changes originating in each year are included in the Core Audit costs for the following year. They are:

<u>Scope changes</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Recurring:			
Report on UC Cash Contributions to the Retirement System			\$ 5,250 <sup>(3)</sup>
Changes in audit scopes		\$ (58,100) <sup>(4)</sup>	
	\$ -	\$ (58,100)	\$ 5,250
Nonrecurring:			
	\$ -	\$ -	\$ -
Total scope changes	<u>\$ -</u>	<u>\$ (58,100)</u>	<u>\$ 5,250</u>

(2) For FY13, the University agreed to increase the fees by 5% over the FY12 fees. For FY12, the University agreed to increase the fees by 3.5% over the FY11 fees.

(3) New audit requirement was identified during FY12. During 2012, we performed the audit for FY11 for \$7,500 and for FY12 for \$5,000. We propose a fee increase of 5% for the FY13 audit.

(4) Reduction in fee due to report changes made by the University for the benefit plan reports. Additionally, the bond audit report is no longer required.

**PricewaterhouseCoopers**  
**Audit and Consulting Fees <sup>(1)</sup>**  
**2012 and 2011**

<u>Year</u>	<u>Core Audit</u>	<u>Other Audits</u>	<u>Audit Related</u>	<u>Consulting</u>	<u>Ratio of Consulting to Core Audit</u>	<u>Ratio of Consulting to Core Audit, Other Audits and Audit Related Services</u>
2012	3,749,700 <sup>(1)</sup>	880,122 <sup>(2)</sup>	175,208 <sup>(3)</sup>	-	0%	0%
2011	3,681,000 <sup>(1)</sup>	851,431 <sup>(2)</sup>	309,969 <sup>(3)</sup>	47,537 <sup>(4)</sup>	1%	1%

<sup>(1)</sup> Fees are generally allocated to the fiscal year under audit for audit services and to the year performed for consulting projects, if any. Ongoing scope changes originating in each year are included in the core audit costs for the following years.

<sup>(2)</sup> Fees related to auditing the campus foundations, ASUCLA and the cash contribution report for the Retirement System.

<sup>(3)</sup> Relates primarily to agreed upon procedure engagements, tax compliance work and CFIA audits

<sup>(4)</sup> Relates to Payroll Assessment/Activity Analysis Survey.