
***University of
California***
**Audit and
Communications Plan**

June 30, 2012





Members of The Regents
Committee on Compliance and Audit
University of California

February 6, 2012

Dear Members of the Committee on Compliance and Audit:

We are pleased to have the opportunity to meet with you on February 28, 2012 to present you with our 2012 service plan that covers our audit and communications plan for the audits of the various financial statements of the University of California (the "University") for the year ending June 30, 2012. Discussion of our plan with you ensures our engagement team members understand your concerns and we agree on mutual needs and expectations to provide the highest level of service quality. Each year, we take a fresh look at our audit and service approach. The University is a highly complex organization and we deal with many facets of it as part of our audit. However, our commitment to the entire organization remains simple - we are driven by a continuous desire to add value to the University.

As the independent accountants for the University, we understand our special responsibility to The Regents of the University and its constituents to perform effective and efficient audits. We take this responsibility seriously. We also take seriously our responsibility to provide the Regents and management our Firm's best thinking and insight on technical accounting, tax and industry matters that may be of interest to you. Based on discussions with the Committee on Compliance and Audit (the "Committee") and key financial management, we summarized our understanding of your collective expectations for our 2011 audit in the Audit and Communications Plan for the Year Ending June 30, 2011. We have included in Appendix A of this document, a report which outlines our response to how we addressed those commitments. Additionally, we have included our commitments to you for the 2012 audit. We welcome input from the Committee in any areas that you would like us to focus on or ways in which we can improve our service.

We look forward to meeting with you to present our audit plan, address your questions and discuss any other matters of interest to you.

Please feel free to contact Joan Murphy, Engagement Partner, at (415) 498-7690 with any questions you may have.

Very truly yours,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

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Executive Summary

This document outlines our audit strategy and approach for the 2012 audits of the University of California and is provided to give the Committee the opportunity to review, discuss and comment on our plan. As in the past, our audits are designed to be risk-based and to be modified to reflect changing regulatory and environmental circumstances. The highlights of our 2012 plan include:

- Remaining alert to developments in government contracting regulations and oversight and their potential effect on federal contracts held by the University.
- Continuing to monitor developments in federal and state hospital reimbursement mechanisms and their potential effect on the University's Medical Centers.
- Identifying other regulatory developments which could affect our audit procedures under a risk-based approach.
- Working with management to assess the impact of future technical pronouncements on the University's various financial statements (including Governmental Accounting Standards Nos. 63 and 64).

This document provides:

- An overview of the PwC client service team.
- Assessment of the key risks in your business and our audit responses.
- A plan for continuous, two-way communication and reporting to the Compliance and Audit Committee and management.
- An overview of our top-down, risk-based audit approach.

Given the complexity of the University's activities, some modification of the scope of our plan may be required as we execute our 2012 audits. We will advise the Compliance and Audit Committee of any significant changes.

Client Service Team

Our engagement team is under the direction of **Joan Murphy**, who is responsible for ensuring the overall quality of the PwC audit engagement. She will be your primary point of contact to ensure seamless coordination of our resources and services, and she will have ultimate authority and responsibility for all technical decisions and issues resolution affecting the University. She will continue to meet regularly with the Committee and will be in frequent contact with Office of the President management.

Continuing to lead the Medical Center audit teams will be **Mike MacBryde**, who will act as a focal point through which all Medical Center matters are addressed and resolved. Mike and the Medical Center teams will continue to work closely with our Office of the President engagement team on specific Medical Center-related issues as they arise.

Ann Kennedy will continue to serve as the investment team partner overseeing the PwC audit team that serves the Office of the Treasurer. This team is responsible for performing all audit procedures over the investment portfolios managed by the Office of the Treasurer.

Suzanne Faulkner will serve as the partner for all IT issues related to the audit and other services. Her responsibilities will be to ensure that all risks associated with information technology systems and controls are addressed. She will work closely with the audit team to provide a comprehensive integrated audit approach. She also will provide insight and guidance to management on key risks and issues related to information technology.

Rick Stover and **Denise Marbach** will serve as the Quality Review Partners of the University and the Medical Centers, respectively. In this role, they will provide an independent view of the engagement team's judgments related to auditing and technical accounting matters. They will independently assess the audit plan and its execution, including the quality of the financial statements and the appropriateness of our reports.

Additionally, we know you appreciate our ability to provide you staffing continuity, which maintains a high degree of audit quality while keeping the audit from being intrusive. As you will see on our organizational chart, a significant number of our 2011 team members are recurring. This includes many of our senior associates and specialists. Furthermore, your engagement team is comprised of seasoned professionals, many of whom have served the University for multiple years, with different skill sets to provide you a comprehensive engagement team.

Use of Specialists

The University operates in highly complex businesses, requiring additional expertise beyond traditional audit resources. During the course of the audits, we will utilize our functional experts to evaluate key areas of your business risks— such as the valuation of self-insured risks and insurance accruals, the valuation of pension and post employment benefit obligations, valuation of certain investments, and third party settlements. Drawing upon their best practice knowledge, our team will provide points of view related to your business, industry and regulatory compliance.

These specialists also will ensure that we have the right resources to achieve our audit objectives. Accordingly, our PwC engagement team will include the following specialists who will work with our audit teams and management at your business units to assist us in executing our audit:

Area of expertise	Description of service
Financial Services Valuation Specialists	Assistance with the evaluation of the fair value of investments and related disclosures
Insurance Actuaries	Review of actuarially determined balances and actuarial models involving self insurance reserves
Global Human Resources Solutions (Benefit Plan Actuaries)	Review actuarial assumptions related to compensation programs and benefit plans
Healthcare Reimbursement Specialists	Review third party account transactions subject to complex rules and interpretation

In addition, we leverage certain groups within our firm to help support the audit in the areas of Information Technology (IT), Healthcare Compliance and Regulatory Compliance for A-133:

Area of expertise	Description of service
Risk Assurance	Review and testing of IT and application controls
Healthcare Compliance Services	Provide guidance to Medical Center audit teams and the University regarding healthcare compliance requirements
Regulatory Compliance Services	Review the University's A-133 report and provide perspective on federal agencies' monitoring and expectations of award recipients

Senior Relationship Partner

In order to better understand and meet your needs and expectations, **Jim Henry** will continue to serve as Senior Relationship Partner (SRP) on the University engagement. Jim will serve in this role for all professional services provided by PwC to the University.

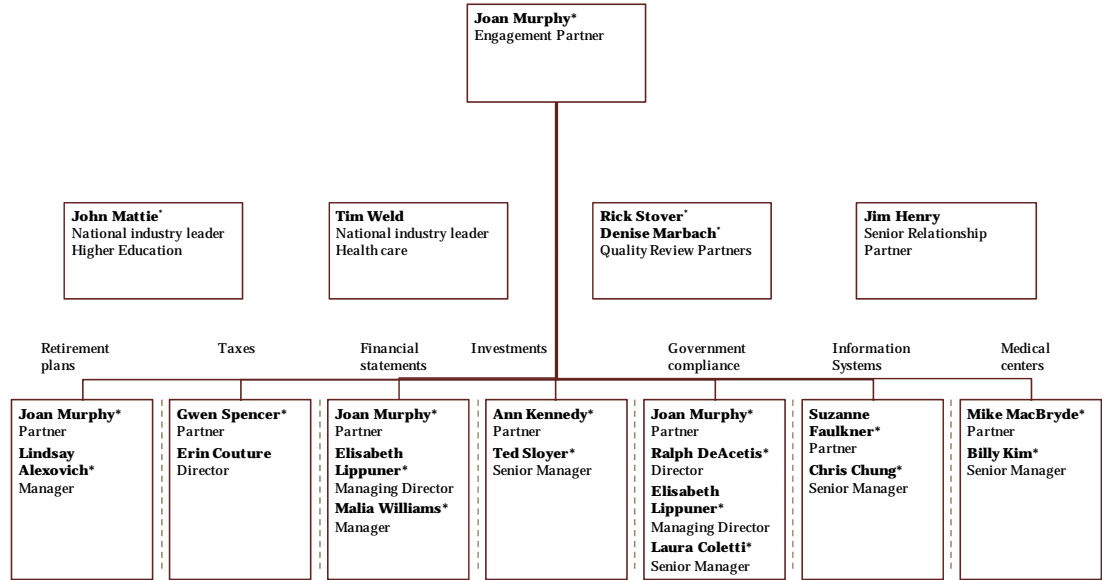
The role of the SRP is a year-round, active (yet independent) member of the engagement team and is filled by our most senior partners with extensive experience in successfully serving our clients. Jim has been with the firm for over 30 years and is currently the market managing partner for Northern California. Jim also serves on the firm's U.S. Leadership Team and Strategy Committee. Jim has previously led PwC's Health Industries practice, which includes the Healthcare, Higher Education and Pharma & Life Sciences industry sectors.

The role of the SRP is to strengthen long-term, important client relationships by:

- Providing the University with access to an independent leadership resource.
- Meeting with University senior executives and audit committee members to understand their needs, expectations, and perception of the services and value that the engagement team brings to the University.
- Serving as an advisor and coach to Joan Murphy and the University engagement team in addressing the University's needs and expectations.
- Lead our annual feedback process including completing relationship assessments in person with senior executives and audit committee leaders, driving a client feedback survey process, providing feedback to the engagement team, ensuring feedback is incorporated into the engagement team's service plan, and "closing the loop" with senior executives and audit committee members to ensure their feedback has been appropriately addressed.

In addition, **John Mattie**, our US Higher Education Assurance Leader and a member of our firm's Industry Leadership Team, will serve as a member of the engagement team as a resource on complex industry issues as well as to be available to the Committee and management to discuss national trends and hot topics.

Client Service Team Composition



Medical Center teams

Irvine, Davis, Los Angeles, San Diego, San Francisco

Partners Mike MacBryde*

Managers Heidi Stevens*
Billy Kim*
Rick Wang*

Campus teams

Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, Santa Cruz

Partners Joan Murphy*
Mike MacBryde*
Lee Overstreet*
Jill Tregillis-Bacon

Managers Chris Harris*
Billy Kim*
James Park*
Heidi Stevens*
Aubree Bergtholdt*
Mari Kuwabara*
Nancy Leparto*
Kathleen Hopely*

Foundation teams

Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, Santa Cruz

Partners Joan Murphy*
Mike MacBryde*
Lee Overstreet*
Zahid Rahman*
Jill Tregillis-Bacon

Managers Mari Kuwabara*
Nancy Leparto*
Kim Berger*
Chris Harris*
Jennifer Cason*
Kathleen Hopely*

* Recurring team member

Our Audit Objectives

As the University's auditor, we are responsible for reporting on the various financial statements of the University for the year ending June 30, 2012. Our audit engagement is directed toward delivering our services at three levels:

For stakeholders	Independent opinions and reports that provide assurance on financial information released by the University
For the Committee	Assistance to the Committee in discharging its governance compliance responsibilities
For management	Observations and advice on financial reporting, accounting, tax and internal control issues from our professionals, including sharing experience on industry best practices

In performing our audits for 2012, our primary objectives are as follows:

- Opine on the various University financial statements, in accordance with generally accepted auditing standards (GAAS), as well as with the additional requirements under *Government Auditing Standards* (GAS)
- Obtain reasonable assurance about whether the financial statements are prepared in accordance with U.S. generally accepted accounting principles and are free of material misstatement, whether caused by error or fraud;
- 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; and
- Complete other communications required under professional standards to the Committee on a timely basis.

In meeting these objectives, we will do the following:

- Consult with management on a timely basis regarding accounting and financial reporting issues and ensure all matters of significance are reviewed and discussed at the Office of the President level;
- Coordinate efforts with management to ensure that all significant financial statement components are subject to sufficient audit coverage;
- Evaluate changes in the business, risk profile and internal controls to determine the nature, timing and extent of our testing of controls and substantive tests;
- Provide relevant expertise to facilitate the resolution of important issues; and
- Report the results of our work to management and the Committee, including constructive observations relating to the University's financial processes and controls.

Audit Reports and Services

Audit Scope

PricewaterhouseCoopers has adopted a consistent approach for our audit procedures. We scope our work to perform an audit of the various financial statements. Overall we must achieve sufficient coverage to express an opinion on the University's consolidated financial statements as a result of our audit conducted in accordance with GAAS and GAS as well as on the combined Medical Center and employee benefit plan and related trust financial statements.

A-133 Reporting

Additional procedures are required for performing an audit of compliance with requirements applicable to each major federal program in accordance with GAS. At the time of preparing this report, we have identified two major programs (research and development and student financial aid) that will be subject to our OMB Circular A-133 audit for the year ending June 30, 2012. We expect that one or two additional programs requiring audit as part of the 2012 A133 work will be identified as part of the preparation of the 2012 Schedule of Expenditures and Federal Awards. Should additional major programs be identified that are required to be audited as part of the 2012 A-133 audit, we will alert the Committee of this.

PwC Services to the University

In addition to our audits, we provide advice on emerging accounting and reporting issues and provide certain other services including those listed below. Prior to commencing any 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.

<p>Audit Opinions</p>	<ul style="list-style-type: none"> ■ Report on the consolidated financial statements of the University of California ■ Report on the combined financial statements of the five Medical Centers ■ Report on the University of California Retirement System ■ Reports in accordance with OMB Circular A-133, including: <ul style="list-style-type: none"> - 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> - Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance
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<p>Internal Control Observations</p>	<ul style="list-style-type: none"> ■ Report to the Committee on control and process deficiencies and observations, including material weaknesses and significant deficiencies (Regents Letter) ■ Reports to the campus Chancellors on control and process deficiencies and observations (Chancellor Letters)
<p>Agreed-Upon Procedures</p>	<ul style="list-style-type: none"> ■ Agreed-upon Procedures related to the sale of Mortgage Origination Program and Supplemental Home Loan Program loans ■ Agreed-upon Procedures related to the 415(m) plans ■ Agreed-upon Procedures on Intercollegiate Athletic Departments (NCAA requirements) for six campuses
<p>Other Services</p>	<ul style="list-style-type: none"> ■ Reviews in connection with bond offerings ■ Accounting consultations and other assistance associated with emerging accounting and reporting issues and complex transactions
<p>Committee Reporting</p>	<ul style="list-style-type: none"> ■ Audit and communications plan ■ Results of audits and required communications

Our Commitment for 2012

PwC has a strong appreciation for the responsibility of Committee members and management, and understands the importance of their role to the University's Regents, bondholders and stakeholders, including employees. We also recognize that the Committee places importance on the role that we play as independent auditors. We accept and affirm our responsibility to the Committee. We will fulfill this responsibility by performing our audits in accordance with governing professional standards. We also commit to communicating with you in a clear, transparent and forthright manner.

We have provided to you under separate cover, our document titled "Our Focus on Audit Quality" which outlines PwC's core principles and practices. Set forth below are the expectations of the Committee and management for the audit of the University of California for the year ending June 30, 2012. We look forward to collectively assessing our performance at the end of the audits.

Initiatives	
Understanding Your Views	<ul style="list-style-type: none"> ■ Seek your view on proposed standards, regulations and risks affecting the University. ■ Help you assess the implications and alternatives of standards and regulations. ■ Consider discussing significant accounting, auditing and regulatory matters. ■ Help you communicate with internal and external constituencies about new or challenging accounting, auditing and regulatory matters. ■ Communicate openly, candidly and timely. ■ Confirm annually with management our mutual expectations and discuss our respective performance. ■ Evaluate annually the organization, execution and management of the audits. ■ Discuss any proposed changes to engagement team leaders as they arise. ■ Conduct annual satisfaction surveys of the Committee and management.

Initiatives	
Share and Collaborate	<ul style="list-style-type: none"> ■ Discuss ours and management’s audit responsibilities and the scope, objectives and emphasis of the planned audits. ■ Develop and mutually agree upon timelines, deadlines and key deliverable dates. ■ Inform management of the PwC engagement team members' roles, responsibilities and assigned areas to ensure proper and timely escalation and resolution of issues. ■ Communicate timely and regularly the status of all audits, audit related work and matters arising. ■ Review preliminary financial statement disclosures drafted by management prior to the audits, including those related to fair value disclosures. ■ Conduct regular meetings throughout the year to discuss current matters facing the University and potential audit implication. ■ Provide periodic updates and discuss proposed accounting, auditing and regulatory standards that may impact the University. ■ Periodically assess and compare your accounting and reporting practices to those of others and provide insight. ■ Share insights gathered from our forums for Committees and corporate governance group, as well as relevant publications and materials, with management and the Committee. ■ Leverage our industry knowledge and expertise in conducting the audits. ■ Provide access to University's management on PwC's education for Continuing Professional Education (CPE) credits and networking opportunities. ■ Discuss with management ways to improve effectiveness and efficiency of the audits. ■ Discuss annually our responsiveness to the Committee's and management’s requests.

Initiatives	
Value Our Relationship	<ul style="list-style-type: none"> ■ Meet with Committee leaders independent of regularly scheduled Committee meetings to obtain their points of view on topics of relevance to the University. ■ Confirm by words and deeds that our responsibility runs to the Committee and Board of Trustees. ■ Meet with senior management on an annual basis to understand the business and operations. ■ Coordinate effectively with PwC's Medical Centers, Investment and foundation audit teams to facilitate timely resolution of audit issues and to effectively communicate audit results. ■ Schedule visits with the Committee Chair, Chief Financial Officer and other key members of management by the PwC Senior Relationship Partner, Jim Henry, on an annual basis to discuss your expectations and develop a relationship with a key PwC management team member outside the core engagement team. ■ Articulate our client service approach to the Committee and management and solicit your point of view on the quality, effectiveness and efficiency of such approach. ■ Review and challenge our own audit process and approach to improve client service, including identifying additional year-end testing that can be completed during interim fieldwork and continued leveraging of work between the financial statement and A-133 audits. ■ Bring the right firm resources to help the University to resolve ad hoc issues on a timely basis throughout the year. ■ Conduct quarterly partner meetings with senior management. ■ Continue to develop relationships with the Committee and relevant management to facilitate open and candid communications.
Create Value / Have Impact	<ul style="list-style-type: none"> ■ Provide timely and value-added comments on financial statements (as well as the OMB Circular A-133 report and Data Collection Form). ■ Advise management and the Committee of our views on information technology (IT) issues and tax issues. ■ Provide thought leadership related to IT to share our point of view on key topics on the minds of IT leaders. ■ Facilitate "hot topic" presentations with management to discuss new standards, upcoming accounting developments and technical matters that may impact the University. ■ Identify issues or matters of interest, provide timely access to PwC subject matter experts regarding emerging issues and actively communicate and seek timely resolution.

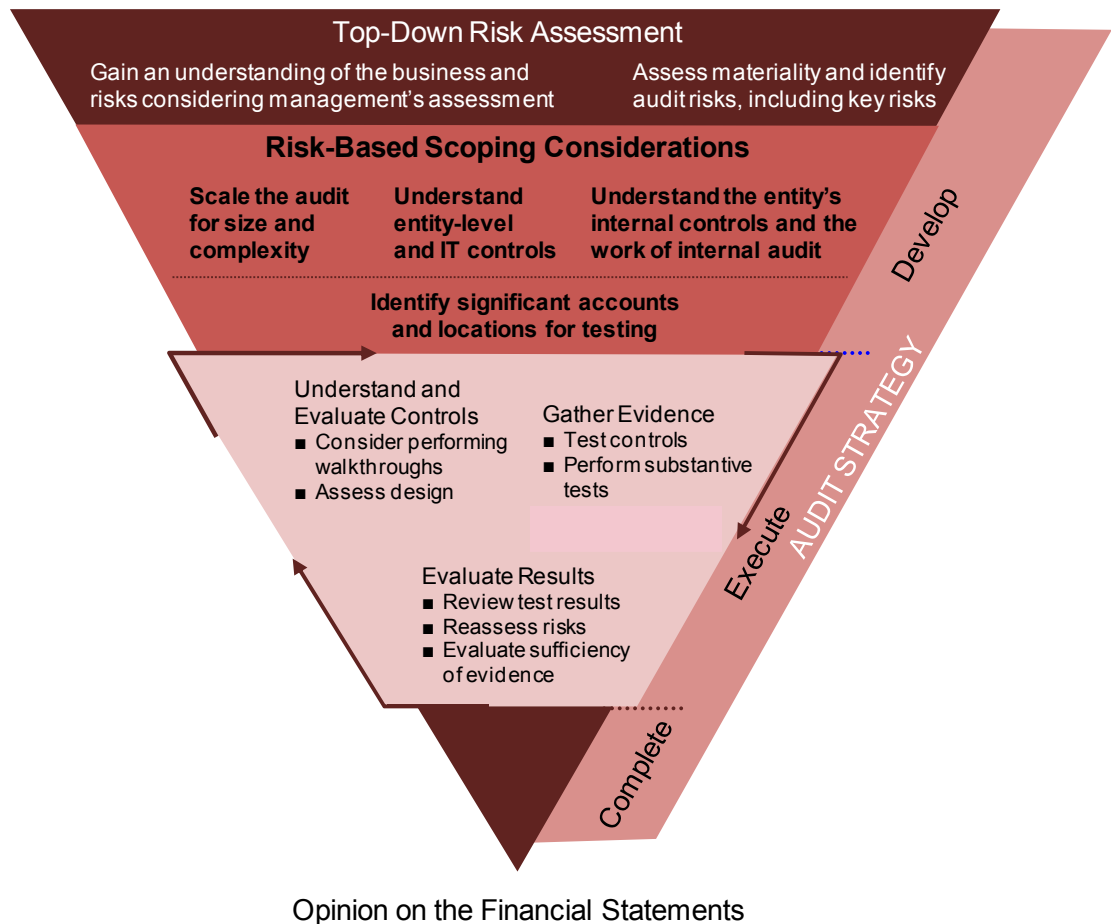
Initiatives	
	<ul style="list-style-type: none"> ■ Approach technical accounting, reporting and regulatory issues by understanding management’s assessment and viewpoint, sharing insights, identifying acceptable alternatives, and maintaining open and effective dialogue. ■ Provide visibility and transparency to our decision process, including interactions with our National Office. ■ Listen to the Committee's and management's perspectives on technical, accounting, reporting and regulatory issues to ensure we understand, yet be candid if our point of view differs. ■ Provide an accessible experienced team who collectively bring to bear an appropriate level of knowledge of your business. ■ Minimize surprises through effective project management of our audit process and regular contact with management. ■ Report control deficiencies identified during the course of our work in a timely basis to assist you to strengthen your internal controls. ■ Maintain our independence in fact and appearance.

PwC Audit Approach

Our Audit Strategy is based on:

- The use of a top-down, risk-based approach to planning and conducting the audit; and
- The application of well-reasoned professional judgment.

These principles allow us to develop and execute our audit strategy in an effective and efficient manner.



Developing Audit Strategy

Top-Down Risk Assessment

Our audit approach is based on the application of well-reasoned professional judgment. We identify audit risks first by considering the business and its environment, and then by considering the key risks related to the significant accounts and relevant assertions, locations

or business units and significant processes. Key risks are audit risks that require special audit consideration.

Where applicable, we also obtain an understanding of management's risk assessment. The result is the development of an audit strategy tailored to the risk conditions of the University and focused on identifying and testing only those key controls that are relevant to preventing or detecting material misstatements of the financial statements, whether caused by error or fraud.

Risk-Based Scoping Considerations

Fundamental to our top-down, risk-based audit approach is an understanding of:

- The size and complexity of the business and its components;
- The existence and effectiveness of entity-level and information technology general controls (“ELCs and ITGCs”) in our determination of the nature, timing and extent of testing; and
- The existence and effectiveness of internal controls.

We scale our audit approach by considering the size and complexity of the business and management's monitoring of controls and business processes. By appropriately scaling the audit, we consider the control environment in which the University operates, which has a pervasive impact on our assessment of the controls necessary to address material risks of misstatement.

Early in the audit process, we assess ELCs and the University's use of information technology. ELCs are controls that may be operational throughout the entire organization, both at a corporate and business unit/management unit level. Our evaluation of the effectiveness of ELCs and the level of precision at which they operate can result in increasing or decreasing the testing that we otherwise would have performed on controls at the process, transaction or application levels. Accordingly, we emphasize the upfront identification and testing of ELCs, which can have a significant impact on the nature, timing and extent of our controls testing.

Generally, information technology is a critical element in developing the audit plan. The assessment of information technology considers the level and complexity of controls automation, system complexity, platforms used, approach to security and the security architecture, known problems, and the nature and volume of transactions. This understanding assists in determining the approach to auditing the effectiveness of automated controls and information technology general controls.

Determining Significant Accounts and Locations

Once we have completed our initial risk assessment and gained an understanding of ELCs and ITGCs, we will determine the most effective and efficient way to obtain audit evidence using well-reasoned professional judgment. This determination begins at the financial statement level by identifying significant accounts and disclosures, considering the relevant assertions related to those accounts and disclosures, and identifying the significant processes and key controls.

Determining Significant Accounts

The determination of whether an account or disclosure is significant to the audit of the financial statements is based on whether there is a reasonable possibility that the account could contain a misstatement that, individually or when aggregated with others, could have a material effect on the financial statements. In addition to quantitative metrics, risk factors such as the following contribute to our determination of the significance of an account or disclosure:

■ Size and composition of the account	■ Accounting and reporting complexities associated with the account or disclosure
■ Susceptibility of misstatement due to errors or fraud	■ Exposure to losses in the account
■ Volume of activity, complexity and homogeneity of the individual transactions processed through the account or reflected in the disclosure	■ Possibility of significant contingent liabilities arising from the activities reflected in the account or disclosure
■ Nature of the account or disclosure	■ Existence of related party transactions in the account
■ Changes from the prior period in account or disclosure characteristics	■ Knowledge obtained in prior audits

For those accounts and disclosures deemed significant, we identify relevant financial statement assertions and the significant processes and then identify the key controls which serve to prevent or detect a material misstatement.

Determining Locations

The scoping of locations is based on the risk of material misstatement. In determining the locations or business units at which to perform tests of controls, we assess the risk of material misstatement of the financial statements associated with the location or business unit and correlate the amount of audit attention devoted to the location or business unit with the degree of risk.

Our engagement team is under the direction of Joan Murphy, a partner based in our San Francisco office. In this capacity, she is responsible for the overall quality of the delivery of our audit services, as well as the consistent application of our audit scope and methodology among the multi-location audit teams.

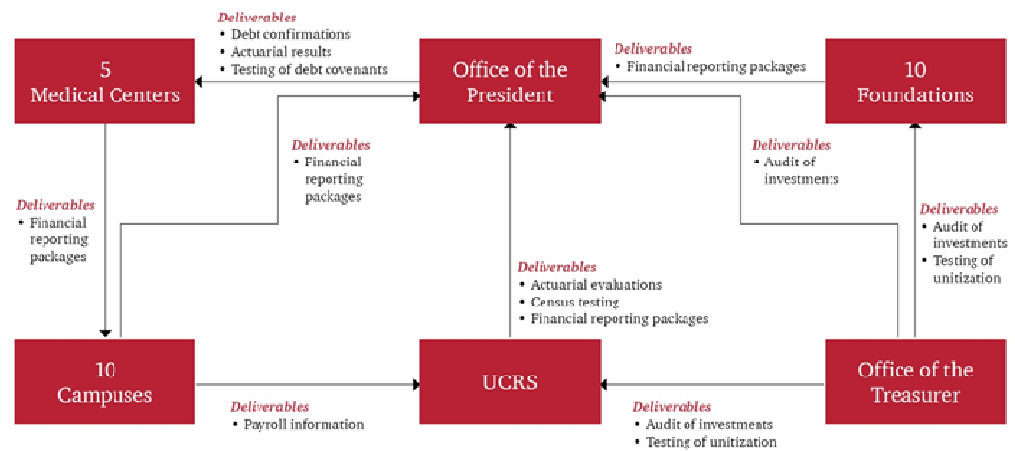
We have taken the following steps to ensure the overall quality of audit engagement:

- Prepared a centrally determined audit scope and plan
- Established a framework for continuous communications throughout our engagement teams
- Adherence to engagement timelines to achieve your reporting objectives

The multi-location engagement team is aligned to the University's geographical organization and mirrors the management control structure of your organization. This structure, coupled with centralized engagement management, leverages the expertise of our local professionals who can respond directly to questions at each location.

Each campus and Medical Center location have an assigned partner and manager regardless of the extent of audit procedures we perform at that location. Accordingly, our engagement teams have established local points of contact to facilitate the completion of scheduling and planning to support local audit requirements as well as discussion of issues of local interest.

The flow of information from the component auditors to the group auditors



For every deliverable, a set of instructions is issued communicating a particular scope of work, materiality and timing.

Executing Audit Strategy

We execute our audit strategy using the following process:

- Understanding, evaluating and assessing the design of controls through inquiry, observation, inspection and reperformance, including walkthroughs;
- Gathering evidence by execution of controls testing through our own work and substantive testing; and
- Evaluating the results of our testing, including reassessing risk and the sufficiency of evidence.

Assessing the Design of Controls

We evaluate and assess the design of controls with information obtained from various sources including our interaction with management, knowledge obtained from past audits,

performing walkthroughs where deemed appropriate and different combinations of inquiry, observation, and inspection. Our controls testing provides us with evidence of the design and operating effectiveness of controls, including those related to the prevention or detection of fraud. Our controls testing approach is dependent on the work of internal audit and their competence and objectivity.

Gathering Evidence

We obtain sufficient competent evidence through a combination of our own audit procedures and reliance placed on the work of internal audit. We ensure an efficient audit by focusing only on those key controls that prevent or detect material misstatements of the financial statements, whether caused by error or fraud. For those identified key controls, we test operating effectiveness. Our method of testing will depend, amongst other things, on the risk of misstatements that the controls are intended to prevent or detect, the inherent risk associated with the related account and assertion, the control's complexity and other factors affecting the risk associated with the control. The amount of audit evidence needed increases as the risk of material misstatement increases.

We assess the effectiveness of internal control and the nature of risk associated with an account in determining the nature, timing and extent of substantive procedures. The nature and degree of risk is the key determinant in how much additional audit evidence should be obtained from analytical procedures (such as trend or ratio analysis), tests of details (such as vouching third-party source documentation) or a combination of these procedures.

Evaluating Results

Our risk assessment is a pervasive process in which we continuously evaluate the nature, timing and extent of testing and determine whether we have obtained sufficient competent evidence. We evaluate evidence from the work of others, and our independent tests of controls and substantive audit evidence. The results of certain tests may lead to changes in our risk assessment, which may either increase or reduce the procedures performed.

Completion

Prior to the issuance of our audit opinion on the various financial statements, we will perform audit completion activities, including the evaluation of internal control deficiencies; the review of the financial statements, including the adequacy and reasonableness of presentation and footnote disclosures; and the performance of other audit procedures as required by professional standards.

Significant Risks

We have identified certain audit areas as subject to significant risk of material misstatement in the financial statements, based on our knowledge of the University and the industries in which it operates. Such audit areas are subject to inherent or specific risks and complexities, critical accounting policies and/or significant judgments and estimates, as further described in the University's consolidated financial statements, and are key considerations as we develop our current year audit approach. We identified the following significant risks:

- **Valuation of alternative investments and non-agency mortgage backed securities:** The University has complex investments that are recorded at fair value. The underlying assumptions used to value certain of these investments may be judgmental and subject to risk that amounts received in settlement differ significantly from fair value measurements.
- **Fraud risk in revenue.** As discussed in the section, *Perspectives on Fraud Risk and Responsibilities*, we are required to consider the fraud risk in revenue (we focus on the existence assertion), which includes grants and contracts, educational activities and patient service revenue.
- **Management override of controls.** This is an area of presumed significant risk on all audit engagements. We perform testing on the appropriateness of journal entries and other adjustments, significant accounting estimates, and significant and/or unusual transactions to address this risk.

Although not considered significant risks, we also focus our audit procedures on regulatory compliance, including federal grants, and continued focus on compliance processes and controls over the University's' federally sponsored research and financial aid programs in connection with our OMB Circular A-133 audit due to the reputational risk and potential legal ramifications associated with non-compliance.

Areas of Audit Emphasis

In addition to the significant risk identified above, we have identified the areas below that are not considered significant risks but are areas of focus during the audit due to materiality of the balance or complexity/judgment involved in the accounting. Such audit areas are subject to material accounting policies and/or judgments and are considerations as we develop our current year audit approach. They include the following:

- Accounting and reporting for actuarially determined estimates (retirement plans and retiree health benefit obligations)
- Accounting for receivables and allowances established for uncollectible pledges, other receivables and medical center receivables
- Determination of which entities are to be included as component units under GASB reporting guidelines due to their significance and the nature of the University's relationship with the entities

- Accounting for lease-type arrangements and transactions
- Notes, bonds payable and commercial paper liabilities
- Collateral held for securities lending
- Presentation and disclosure of the financial statements
- Treatment of related party transactions with the University, as applicable to the separately-issued financial statements of the foundations, medical centers, benefit plans and benefit trust.

New Matters in 2012

Based on our understanding of the University and our discussions with management and the Committee, during our audit we will focus on the following:

- **New Accounting Standards** – The following GASB pronouncement will have an effect on the University beginning in fiscal 2012 (or need to be retroactively applied to 2012 financials):
 - ***GAS 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (July 2011)***

GAS 53, Accounting and Financial Reporting for Derivative Instruments, was the first standard to require use of two new financial statement elements --"deferred inflows of resources" and "deferred outflows of resources." Implementation of GAS 53 surfaced many questions as to how these elements should be presented, and in particular whether they should be included in (or, alternatively, excluded from) the net assets section of the balance sheet. As defined, "net assets" represents the difference between assets and liabilities. However, "deferred outflows of resources" are not an asset and "deferred inflows of resources" are not a liability, according to GASB Concepts Statement No. 4, *Elements of Financial Statements*.

As modified by GAS 63, a balance sheet must report "deferred outflows of resources" in a separate section following assets. Similarly, "deferred inflows of resources" would be reported in a separate section following liabilities.

GAS 63 was issued in response to requests for guidance on these important presentation matters. Effective for years beginning after December 15, 2011, GAS 63 will replace the "net assets" section of the balance sheet with a new residual section called "net position." The "net position" section represents net assets modified for the effects of deferred inflows/outflows of resources. Similarly, the current requirement to provide information about three categories of net assets will be replaced with a requirement to provide information on three categories of net position: *net investment in capital assets, restricted, and unrestricted*.

At present, the only GASB standards that explicitly require reporting of deferred inflows/outflows of resources are Statement 53 (as noted previously) and GAS 60,

Accounting and Financial Reporting for Service Concession Arrangements. However, the GASB recently issued an exposure draft of a proposed standard that would require many other types of transactions to be reported within this category. When an organization has more than one type of deferred outflow or deferred inflow, details of the different types of deferred amounts should be presented in the notes to the financial statements if significant components of the total deferred amounts are not displayed on the face of the balance sheet.

As indicated previously, GAS 63's provisions will be effective for financial statement periods beginning after December 15, 2011, with early application encouraged. The standard should be applied retroactively for all periods presented.

- ***GAS 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions (July 2011)***

GAS 64 amends GAS 53 to clarify that if certain conditions are met, the use of hedge accounting should not be terminated when a counterparty to an interest-rate or commodity swap agreement (or its credit provider) is replaced. Continuation of hedge accounting is appropriate if: (a) the collectability of swap payments is considered to be probable; (b) replacement occurs through either an assignment or an in-substance assignment (defined below); and (c) the counterparty or its credit support provider (rather than the government) committed the act of default or triggered the termination event. In such situations, the hedging derivative instrument would not be considered to be terminated for accounting and financial reporting purposes.

GAS 64 is effective for financial statement periods beginning after June 15, 2011, with early application encouraged. At initial adoption, governments should restate all prior periods if it is practical to do so. If retroactive application is not practical, a cumulative-effect adjustment should be reported as a restatement of beginning net assets for the earliest period presented.

- ***Proposed GASB standard, Accounting and Financial Reporting for Pension Benefits by Employers (June 2011)***

In 2008, the GASB began comprehensive reconsideration of the effectiveness of its existing pension and other post-employment benefit (OPEB) standards. The board's approach is to initially consider matters pertaining to its pension standards (Statements 25, 26 and 27), and then proceed to reconsideration of its OPEB standards (Statements 43 and 45).

In June 2011, the board issued an exposure draft on employer accounting and financial reporting for pensions, along with a companion exposure draft on reporting by defined benefit pension plans (*Accounting and Financial Reporting for Defined Benefit Pension Plans*). Final standards in both areas are expected in June 2012.

The exposure draft's requirements would be effective for periods beginning after June 15, 2012 for governments that would be required to report information about pensions provided through a single-employer plan that has net assets of \$1 billion or more in the plan's first fiscal year ended after June 15, 2010. For all other governments, it

would be effective for periods beginning after June 15, 2013. Earlier application would be encouraged.

- **Issuance of new bonds payable** - the University is planning on issuing new debt during fiscal 2012. We will evaluate the terms and conditions of the new debt to ensure proper accounting, presentation and disclosure in the financial statements
- **ARRA** - Remaining alert to developments in government contracting, including ARRA grants and compliance reporting, and their potential effects on the University
- **Federal Research** - Since federal research awards continue to represent a significant portion of the University's revenues, we will consider compliance developments with respect to federal awards and consider the effects of any regulatory audits
- **Hospital Fee Program** - The Medical Centers received supplemental payments as a result of AB 1653. We have discussed this accounting with management and are in agreement on the revenue recognition of these funds. We will perform the necessary testing of these amounts at year end and will review any financial disclosures.
- **Meaningful Use Incentive Payments** - As part of the Health Information Technology for Economic and Clinical Health Act (HITECH Act), certain programs were established to improve the efficiency and quality of care through the expansion of electronic health records (EHRs). To encourage organizations to implement such programs, Medicare and Medicaid programs will provide incentive payments to eligible providers (professionals and hospitals) once they can demonstrate meaningful use of certified EHRs. These incentive payments began in fiscal 2011. The accounting profession is currently evaluating the revenue recognition associated with this program. We will continue to monitor any new developments and work with the University and Medical Center teams to ensure consistency and accuracy of the accounting for such incentive payments, where applicable.
- **Significant IT Implementations** - Several of the University's Medical Centers are implementing significant integrated clinical systems. Based on our discussions with the various management teams, in addition to the vendor costs, management anticipates capitalizing internal costs. We will review management's processes and controls for capturing and monitoring those costs, and ensure that they comply with capitalization criteria promulgated by GAS 51. We will also perform detail testing of significant amounts capitalized as part of our overall fixed asset audit approach and evaluate the appropriateness of financial statement disclosures.

Approach for Areas of Significant Risk

As described in the *PwC Audit Approach* section of this document, our integrated audit approach is a top-down, risk-based approach, and we continually reassess audit risks throughout the audit process.

Higher risk areas, in our judgment, require special audit consideration because of the nature of the risk (higher inherent risk), the likely magnitude of potential misstatements (including the possibility that the risk may give rise to multiple misstatements) and the likelihood of the risk occurring.

We have obtained an understanding of your financial, accounting, business and information system strategies in order to assess audit risks at the University. The following list summarizes audit risks and our approach for the 2012 financial statement audits and the procedures we will perform to reduce the related audit exposure. It is not intended to be a complete listing of all risks or all procedures that we perform in connection with our audits.

Audit Area	Risk Factors	Audit Implications/ Approach
<p>Valuation of alternative investments and non-agency mortgage backed securities</p>	<ul style="list-style-type: none"> ■ Investments may not be valued appropriately ■ Given the size of your portfolio, and that it includes non-readily marketable investments and non-agency mortgage backed securities, and the inherent risks and complexity of this area, our audit continues to place significant emphasis on the University's investment portfolio ■ Valuation of securities, including non-marketable securities, such as private equity funds, real estate limited partnerships and hedge funds, are inherently more complex to value 	<ul style="list-style-type: none"> ■ Obtain an understanding of the processes and procedures in place to ensure the existence and valuation of investments. ■ Test the operating effectiveness of key controls within the investments cycle, including due diligence and monitoring controls. ■ Assess the financial reporting risk inherent in each fund based on the level of transparency into each investment. ■ Consider the experience and expertise of individuals responsible for the accuracy of the fair value of investments. ■ Understand and evaluate service organizations used. ■ Confirm fair values of securities, on a sample basis. ■ Obtain audited/reviewed financial statements for selected non-readily marketable securities. ■ Review and test for reasonableness, inputs used in the model created by the University to value non-agency mortgage backed securities. ■ Review all important reconciliations and year end portfolios for evidence of non-recorded transactions and contracts. We will confirm material pending trades and other liabilities.

Audit Area	Risk Factors	Audit Implications/ Approach
Fraud risk in revenue	<ul style="list-style-type: none"> ■ We have a responsibility to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. 	<ul style="list-style-type: none"> ■ Gain an understanding of the material risks of fraud at the University and perform audit procedures to address those risks, including management interviews, testing of journal entries, disaggregated revenue analytics and incorporating unpredictability into our audit work. ■ See "Perspectives on Fraud Risk and Responsibilities" section.
Grants and contract revenue; and educational activities	<ul style="list-style-type: none"> ■ The University receives significant funding from various agencies. The University must continue to comply with compliance regulations of federal agencies. ■ The University continues to receive ARRA funding and must comply with the related requirements of such awards. 	<ul style="list-style-type: none"> ■ Obtain sponsored research contracts to gain comfort on the existence of the revenues received. ■ Test compliance with allowable cost principles for federally funded sponsored research programs in accordance with OMB Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Organizations" (OMB Circular A-133) and other specific grant requirements. ■ Perform analytical review of revenues. ■ Assess and test key compliance controls; test compliance with material compliance requirements applicable to major programs
Medical Center patient service revenue	<ul style="list-style-type: none"> ■ Revenue transactions are not processed in the proper period. ■ The environment surrounding billing, collecting and determining reserves continues to be complex. ■ Accounts may not exist. 	<ul style="list-style-type: none"> ■ Perform patient revenue testing. These tests will allow us to verify the existence of patient charges. We supplement our test with analytical procedures on all key areas. We will also assess the reasonableness of management's estimates for contractual allowances and bad debts by evaluating the current year's methodology, assessing the adequacy of the prior year's estimates and substantive analytics. ■ Utilize our Healthcare Reimbursement Specialists to assist us in our testing of contractual allowances.

Audit Area	Risk Factors	Audit Implications/ Approach
Management override of controls	<ul style="list-style-type: none"> ■ Financial statements could be materially misstated. ■ Misappropriation of assets. 	<ul style="list-style-type: none"> ■ Evaluate the design and operating effectiveness of internal controls as well as perform substantive tests of details for significant risk areas.

Audit Timeline

We have developed the following reporting timeline that facilitates the University meeting all of its legal and regulatory requirements. As you can see below, this timeline spans the entire year and represents our commitment to the University throughout the year.

Engagement Activities	Key Procedures Performed	Timing of Procedures
Planning and Audit Management	<ul style="list-style-type: none"> ■ Meet with management to understand the University's activities and assess risk; and obtain update of operating plans and activities 	<ul style="list-style-type: none"> ■ Ongoing throughout the year
	<ul style="list-style-type: none"> ■ Assess key audit risks and materiality 	<ul style="list-style-type: none"> ■ January - February 2012
	<ul style="list-style-type: none"> ■ Complete understanding of controls and preliminary scoping of accounts, processes and locations 	<ul style="list-style-type: none"> ■ February – March 2012
	<ul style="list-style-type: none"> ■ Meet with the Committee to discuss engagement plan 	<ul style="list-style-type: none"> ■ February 2012
	<ul style="list-style-type: none"> ■ Coordinate with PwC engagement teams and issue instructions for the audits of the consolidated and Medical Center financial statements and benefit plans and A-133 testing procedures 	<ul style="list-style-type: none"> ■ March - April 2012
Execution and Audit Management	<ul style="list-style-type: none"> ■ Provide consultations on major issues and developments 	<ul style="list-style-type: none"> ■ Ongoing throughout the year
	<ul style="list-style-type: none"> ■ Perform testing of key monitoring, internal accounting and management controls 	<ul style="list-style-type: none"> ■ April – June 2012
	<ul style="list-style-type: none"> ■ Evaluate nature, timing and extent of substantive procedures based on controls testing 	<ul style="list-style-type: none"> ■ April – June 2012
	<ul style="list-style-type: none"> ■ Perform substantive audit procedures at interim for both financial statements and A-133 audits 	<ul style="list-style-type: none"> ■ April – June 2012
	<ul style="list-style-type: none"> ■ Perform substantive audit procedures at year end for both financial statements and A-133 audits 	<ul style="list-style-type: none"> ■ August – September 2012
Completion and Audit Management	<ul style="list-style-type: none"> ■ Issue audit opinions and related financial statements 	<ul style="list-style-type: none"> ■ October 2012
	<ul style="list-style-type: none"> ■ Meet with the Committee to communicate results of year-end audit and internal control recommendations 	<ul style="list-style-type: none"> ■ November 2012
	<ul style="list-style-type: none"> ■ Issue Report on A-133 Compliance 	<ul style="list-style-type: none"> ■ March 2013

Our Audit Responsibilities

Our responsibility is to express opinions, based upon our audits, on the University's consolidated financial statements, the University of California Retirement System financial statements; and the combined Medical Center financial statements. We conduct our audits in accordance with generally accepted auditing standards and, in the case of the consolidated financial statements, *Government Auditing Standards*. Those standards require that the auditor obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements. An audit includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify all significant deficiencies. However, as your auditor, we are responsible for ensuring that Committee is aware of any significant deficiencies or material weaknesses that come to our attention.

Our responsibility with respect to other information in documents containing audited financial statements is to read such information and consider whether the information or the manner of its presentation is materially inconsistent with information appearing in the basic financial statements.

Our responsibility with respect to Committee communications is to convey those matters that have come to our attention as a result of the performance of our audit.

Our audit does not relieve management of its responsibilities with regard to the financial statements.

We also are responsible for issuing several agreed upon procedures reports, consisting of the Mortgage Origination Program and Supplemental Home Loan Program, as well as procedures at six of the ten campuses covering the National Collegiate Athletic Association Bylaws. These agreed upon procedures engagements and resulting reports are performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. These procedures do not constitute an examination, but rather are procedures designed in conjunction with the specified parties receiving the reports.

Management's Responsibilities

As part of the audit process, management is responsible for the following:

- Preparing the University's consolidated and any separate financial statements in accordance with generally accepted accounting policies;
- Establishing and maintaining effective internal control over financial reporting;
- Identifying and ensuring that the University complies with the laws and regulations applicable to its activities;
- Making all financial records and related information available to the auditor;
- Providing the auditor with a letter that confirms certain representations made during the audits;
- Adjusting the financial statements to correct material misstatements and affirming to the auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor during the current engagement pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Committee's Responsibilities

As part of the audit process, the Committee is responsible for the following:

- Oversee the reliability of financial reporting including the effectiveness of internal control over financial reporting;
- Review and discuss the annual financial statements for the University, the combined Medical Centers and the benefit plans and determine whether they are complete and consistent with operational and other information known to Committee members;
- Understand significant risks and exposures and management's response to minimize those risks;
- Understand the audit scope and approve audit and non-audit services.

Our Communications Plan with Management

We communicate with management both in writing and verbally continuously throughout the year.

Examples of our ongoing communications include:

- Issues identification and resolution
- Periodic meetings with management at Office of the President, Office of the Treasurer, local campuses and Medical Centers
- Planning and scoping discussions
- Internal Audit planning and coordination
- Discussions of findings from interim audit work
- Review of draft financial statements
- Year-end clearances of financial statement amounts

Our Communications Plan with the Committee

Our communications with the Committee are designed to comply with standards established by the American Institute of Certified Public Accountants.

Our formal communications will occur via periodic meetings with the Committee at various stages during the year. As part of these meetings we will communicate with the Committee our service approach and audit plan, and our views on risks and controls, including those over financial reporting and governance. In addition, we will present the results of our audits upon completion.

In addition to our scheduled meetings, we are also available, at any time, to respond to Committee members' questions.

Our Interaction with Internal Audit

Although our objectives and responsibilities are necessarily different from those of Internal Audit, the efforts of both our organizations are very much complementary and provide a combined program of balanced audit coverage for the University. In our view, there is an excellent working relationship between our two organizations characterized by regular communication and formal and informal meetings.

We consider Internal Audit to be an effective and important element in the University's overall internal control environment. We complete certain procedures when relying on their work, as follows:

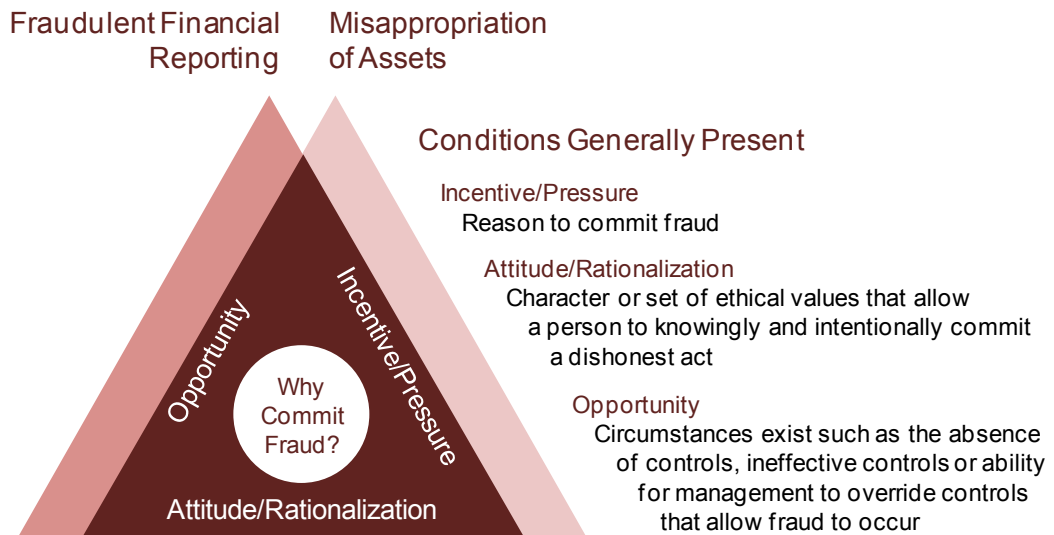
- Review on a timely basis Internal Audit reports and management responses;
- Understand the Internal Audit plan, including the nature, timing and extent of work; and
- Consider the impact of Internal Audit findings on our financial statement and compliance audits.

The local campus audit engagement team leaders will also attend campus audit committee meetings.

Perspectives on Fraud Risk and Responsibilities

We have a responsibility to plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. In order to fulfill that responsibility, as part of our audits, we are required to gain an understanding of the risk of material misstatement due to fraud at the University and perform certain procedures to respond to the fraud risks identified.

Types of Fraud



Attributes Contributing to Increased Fraud Risk

- Size, complexity and ownership attributes of the University
- Type, significance, likelihood and pervasiveness of the risk

The oversight responsibilities of senior management and the Audit Committee and the auditor’s responsibilities are outlined below.

<p>Management Responsibilities</p>	<ul style="list-style-type: none"> ■ Design and implement programs and controls to prevent, deter and detect fraud (antifraud programs) ■ Ensure that the University’s culture and environment promote honesty and ethical behavior ■ Perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalization ■ Assess management override of controls and communicate with the Audit Committee and board
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<p>Committee Considerations</p>	<ul style="list-style-type: none"> ■ Evaluate management’s identification of fraud risks, implementation of antifraud measures, and creation of appropriate “tone at the top” ■ Ensure that senior management implements appropriate fraud deterrence and prevention measures to better protect investors, employees and other stakeholders ■ Investigate any alleged or suspected wrongdoing brought to its attention ■ Challenge management in the areas of nonroutine, related party and inter-company transactions
<p>PwC’s Role</p>	<ul style="list-style-type: none"> ■ Plan and perform the audit to provide reasonable assurance that the financial statements are free of material misstatement, whether caused by fraud or error ■ Evaluate whether the University's programs and controls that address identified risks of material misstatement due to fraud have been suitably designed and placed in operation ■ Evaluate management’s process for assessing effectiveness of antifraud programs and controls ■ Evaluate fraud of any magnitude on the part of senior management and the impact on the control environment
<p>PwC’s Procedures</p>	<p>In order to fulfill our responsibilities related to fraud, we plan to perform the following procedures:</p> <ul style="list-style-type: none"> ■ Inquiries of management, the Chair of the Committee, Internal Audit and others related to knowledge of fraud or suspected fraud, the fraud risk assessment process and how fraud risks are addressed by the University. ■ Disaggregated analytical procedures, primarily over revenue ■ Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed annually ■ Identify and select journal entries and other adjustments for testing ■ Evaluate estimates and assumptions used by management that could have a material impact on the financial statements. ■ Review Internal Audit reports and remain alert for matters that are indicators of fraud.

Materiality

We consider both quantitative and qualitative factors in our assessment of materiality. We also assess the metrics used by the users of the financial statements in determining the appropriate base for calculating materiality.

We identify and assess the risk of material misstatement at:

- The overall financial statement level, and
- In relation to classes of transactions, account balances and disclosures.

We use different materiality levels for our audit of the various financial statements including the consolidated statements, the combined medical center statements, and the University's benefit plans statements.

Independence

As auditors of the University, we are subject to a variety of standards to ensure our independence, including American Institute of Certified Public Accountants, Governmental Accountability Office and internal PwC standards. Our quality control processes include confirmation of independence by professional staff and training and are established to ensure our continuing independence.

We hereby confirm our independence of the University for the fiscal year ending June 30, 2012. We will reconfirm our independence at the completion of our June 30, 2012 audits for the University.

Appendix A

2011 Value Report

Our annual commitments to management and the Committee are set forth below along with our assessment of our performance on the 2011 engagement. We welcome your feedback regarding our performance at any point.

Commitment	Our response
<p>Understanding Your Views</p> <ul style="list-style-type: none"> ■ Reaffirm to management our understanding of our mutual expectations. ■ Obtain management's and the Committee's views of risks affecting the University. ■ Conduct annual satisfaction surveys of the Committee and management. ■ Solicit management's views on performance of our engagement staff. 	<ul style="list-style-type: none"> ■ We discussed with management and the Committee the current year developments and risks affecting the University's business. These business risks were considered during our assessment of audit risks as part of planning and scoping the audit. ■ Similar to what we did at the conclusion of the 2010 audits, satisfaction surveys are scheduled to be sent to key members of management and the Committee Chair in April 2012. ■ Obtained feedback from campus and Medical Center Controllers on the performance of our staff and opportunities to improve audit coordination. ■ Our debrief with Office of the President management will be held in early March upon completion of the 2011 A-133 audit.
<p>Share and Collaborate</p> <ul style="list-style-type: none"> ■ Communicate candidly on the status of the audit and matters arising on a regular basis. ■ Discuss pending and proposed accounting, auditing and regulatory standards that may impact you on a timely basis. ■ Provide access to PwC's education for Continuing Professional Education (CPE) credits and networking opportunities. 	<ul style="list-style-type: none"> ■ Control observations and deficiencies identified as part of our audit procedures were discussed with management at each location, as applicable. Part of those discussions included suggestions on how that location can improve its accounting processes. Our final comments with respect to internal control were provided in management letters issued to the campuses and medical centers. The most significant matters were summarized in our Report to The Regents Committee on Compliance and Audit. ■ Status updates of the audits were provided throughout the year to management in relation to progress on controls testing and deficiencies identified, results of year-end audit work as well as the status of our A-133 compliance testing. ■ Invited Peggy Arrivas and her team to participate in PwC hosted webcasts on technical accounting matters. ■ Discussed new and pending accounting pronouncements with the Office of the President as part of the annual financial statement and audit preparation process.

Commitment	Our response
	<ul style="list-style-type: none"> ■ We shared industry publications with management throughout the year in order to provide industry, accounting and external reporting updates. Invitations were extended for PwC sponsored events including webcasts related to current financial reporting developments.
<p>Value our Relationship</p> <ul style="list-style-type: none"> ■ Meet with senior management regularly to ensure our understanding of the University's business and operations is current. ■ Schedule annual visits with the Committee Chair, Chief Financial Officer, and other key members of management by the PwC Senior Relationship Partner, Jim Henry, to discuss your expectations and continue a relationship with a key PwC management team member outside the core engagement team. ■ Bring the right PwC resources to help the University to resolve issues timely. ■ Maintain robust procedures to ensure we preserve our independence. 	<ul style="list-style-type: none"> ■ We met periodically with the audit committees of campuses and Medical Centers to present our audit plan and the results of our audit as well as to provide perspective on issues faced at the campus level. ■ We held quarterly update meetings with the medical center management in order to stay on top of any issues and to plan accordingly. ■ Jim Henry met with Peter Taylor and Peggy Arrivas in December 2010/January 2011 to discuss expectations and our service commitment to the University. ■ In acknowledgement of the financial constraints facing the University and our commitment to serve the University, we provided the University a 10% reduction in fees without a reduction in the scope of service or quality of work product. ■ On March 2011, PwC's higher education industry leader, John Mattie, met with the Committee to present an overview of industry trends in higher education. ■ We leveraged experienced PwC Senior Managers by assigning Billy Kim as the leading coordinator for all five Medical Center teams and Liz Lippuner as the Director of the consolidated financial statement audit. Combined, these individuals have over 15 years of UC client service with previous work performed with the medical centers, campuses, foundations, NCAA and A-133 reporting.
<p>Create Value / Have Impact</p> <ul style="list-style-type: none"> ■ Perform effective audits meeting all deliverables on a timely basis. Given the highly complex nature of the University, it is critical that we continue to leverage the extensive knowledge we have gained in working with the University, and seek to align our services to best fit its needs 	<ul style="list-style-type: none"> ■ Several of the campus foundations invest in pools managed by the Office of the Treasurer. Accordingly, the foundation audits rely upon the work we perform at the Office of the Treasurer. We worked closely with our investments team and the campus foundation teams to meet reporting deadlines for those foundations invested in the University's investment pools. ■ A key element of the work undertaken by our IT specialists involves coordination across more than

Commitment	Our response
<p>and provide the most value.</p> <ul style="list-style-type: none"> ■ Construct the audits to provide reasonable assurance that material misstatements resulting from fraud will be detected. ■ Proactively identify issues or matters of interest, including emerging accounting and reporting developments, and communicate and seek timely resolution. ■ Approach technical accounting, reporting and regulatory issues by understanding management’s assessment and viewpoint, sharing insights, identifying acceptable alternatives, and maintaining open and effective dialogue. Be candid if our point of view differs from management. ■ Advise management and the Committee of our views on information technology (IT) issues. ■ Minimize surprises through effective project management of our audit process and regular contact with management. ■ Provide visibility and transparency to our decision process, including interactions with our National Office and proactively manage issue resolution. 	<p>ten UC locations, and a single team overseeing the work across all locations to maximize our understanding of the University of California information technology environment. This facilitation and oversight at the center, provides maximum efficiency and effectiveness in our audit by allowing PwC teams to leverage the information technology knowledge gained at each location, and thereby eliminating duplicative efforts.</p> <ul style="list-style-type: none"> ■ During 2011, a number of UC locations underwent system upgrades or planned for future enhancements of key financial applications. PwC engaged IT Management at UC locations early on to understand the impact to the financial audit, and communicated changes to scope. PwC worked collaboratively with IT Management to discuss the risks associated with development and implementation activities early, and performed testing of those efforts as a part of the IT controls testing. <p>In addition, as UC planned for EMR system implementations, PwC introduced an EMR specialist to engage in discussions on implementation consideration and risks. As UC embarked on an effort to assess the system-wide payroll system, PwC remained an active participant in the proposal process including providing a perspective on the "Total Cost of Ownership." As locations transitioned from a SAS 70 service provider report to an SSAE 16 report, PwC provided guidance and perspectives on the specific requirements to ask from the vendor.</p> <ul style="list-style-type: none"> ■ The University had multiple debt financings during fiscal 2011. We assisted in the financing process which entailed quick responses from us and timely performance of quality reviews and due diligence procedures over the offering statements and memorandums. ■ Our National Director on Federal Compliance, Ralph DeAcetis, reviewed the University's proposed Negotiated Faculty Salary policy and provided his perspective on aspects of interest to the Federal agencies. ■ We included all five of the University Medical Centers in our annual benchmarking survey with key financial indicators and provided timely access to Medical Center and Office of the President management on similar information about their peer institutions.

Commitment	Our response
	<ul style="list-style-type: none"> <li data-bbox="805 312 1466 552">■ We shared our health industry expertise from PwC's Health Research Institute (HRI) with the Medical Centers CFOs by providing copies of our publications and inviting them to our industry forums. Additionally, this year we offered direct access for the Medical Centers' CFOs to our HRI team by arranging for our experts to attend their quarterly meetings to share insights and viewpoints from our research. <li data-bbox="805 562 1466 737">■ We facilitated review of our 2010 A-133 audit work by the National Science Foundation (NSF) as part of their review of the University's administration of NSF awards. This was done to allow NSF to leverage off of the work that we had already done as part of our A-133 audit. <li data-bbox="805 747 1466 869">■ We provided deliverables on a timely basis while performing effective audits. We continued to leverage the extensive knowledge we have gained in working with the University. <li data-bbox="805 879 1466 1024">■ We complied with the appropriate independence and compliance requirements and policies. We have a rigorous process within PwC to ensure our independence is preserved when providing additional services to the University.

