



cutting through complexity

University of California Audit Plan June 30, 2015

March 2015



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February 6, 2015

University of California

Members of the Committee on Compliance and Audit:

We are pleased to present for your review the Audit Plan for the 2014/2015 audits of the University of California. The objective of our audit planning activities is to prepare for an effective audit. As a part of that process and in accordance with auditing standards, we are communicating with you certain matters related to the planned conduct of the audits.

Included in this Audit Plan are overviews of the following topics:

- **Our audit objectives**
- **Planned deliverables**
- **KPMG's client service team leaders**
- **Planned timeline**
- **The responsibilities of KPMG, management, and the Board**
- **Identification of audit risk areas**
- **A discussion of materiality**
- **Confirmation of KPMG's independence**
- **A summary of fees.**

I look forward to seeing you at your meeting in March, and will be available to answer any questions you may have.

Best Regards,

Mark Thomas

Lead Engagement Partner

Contents

- 1 Audit Objectives**
- 2 Deliverables**
- 3 Client Service Team**
- 4 Timeline**
- 5 Responsibilities**
- 6 Risk Assessment**
- 7 Audit Plan - Materiality**
- 8 Independence**
- 9 Fees**

Audit Objectives

Objectives:

- We plan and will perform the audits to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether from error or fraud.

- Our audit includes:
 - Performing tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement to provide a reasonable basis for our opinions.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluating the overall financial statement presentation.

The objective of our audits of the financial statements is to enable KPMG to express opinions about whether the financial statements (prepared by management with the oversight of the Audit Committee) are presented fairly, in all material respects, in conformity with generally accepted accounting principles (GAAP).

Deliverables

Financial Statement Audit Opinions

- **University of California Systemwide Financial Statements**
- **Each of the 5 University Medical Centers**
- **University of California Retirement System**
- **University Captive Insurance Company**

Additional Reports

- **Single Audit of Federal Funds expended in accordance with OMB Circular A-133**
- **Report on the University of California Cash Contributions to the Retirement System**
- **Agreed-upon procedures related to the Mortgage Origination Loan Program**
- **Agreed-upon procedures related to NCAA requirements (6 campuses)**
- **Agreed-upon procedures related to Student Health Insurance Program**

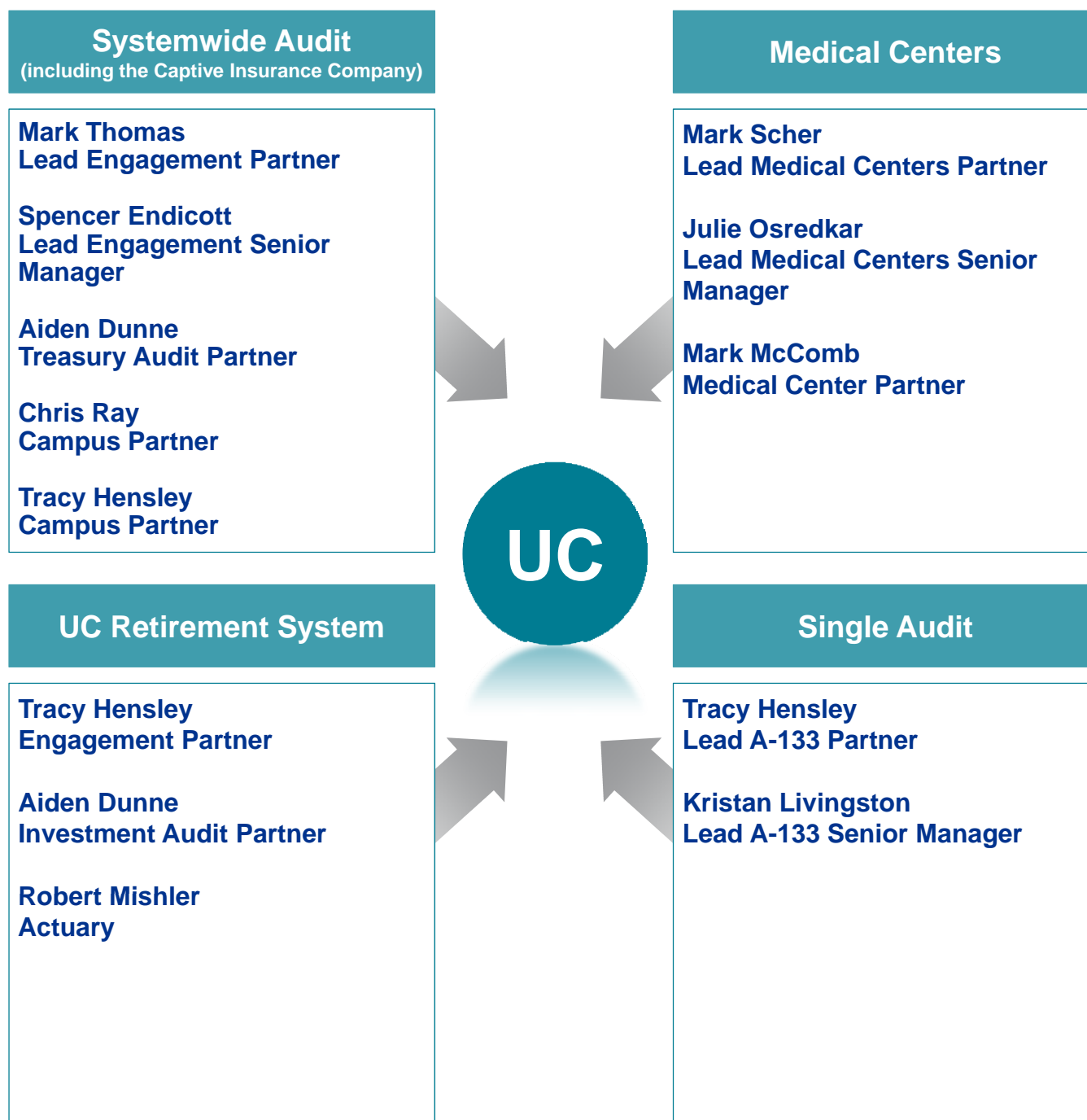
Internal Controls

- **Letter to Regents on internal control deficiencies that are considered Significant Deficiencies and/or Material Weaknesses**

Required Communications

- **Audit Plan**
- **Audit results and required communications relating to the conduct of the audit**

Client Service Team



Timeline

Planning, risk assessments, set scopes by location	January - March
Present overall Audit Plan to the Audit Committee	March
Information Technology Testwork	March - June
Interim fieldwork	April – June
Final fieldwork	August – October
Issue financial statement audit reports	October
Present financial statement audit results to the Audit Committee	November
Complete additional reports and procedures, including Single Audit	November - January

Responsibilities

Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with GAAP
- Establishing and maintaining effective internal control over financial reporting (ICFR)
- Identifying and confirming that the University complies with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor
- Providing unrestricted access to person's within the entity from whom the auditor determines it necessary to obtain audit evidence
- Providing the auditor with a letter confirming certain representations made during the audit that include, but are not limited to, management's:
 - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of ICFR that could adversely affect the University's ability to initiate, authorize, record, process, or report financial data
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud
 - Responsibility for adjusting the financial statements to correct material misstatements relating to accounts or disclosures and for affirming to the auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Responsibilities (continued)

The Audit Committee is responsible for:

- Oversight of the financial reporting process and oversight of internal control over financial reporting (ICFR)
- Oversight of the establishment and maintenance by management of programs and internal controls designed to prevent and detect fraud

Management and the Audit Committee are responsible for:

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

Responsibilities (continued)

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements (that have been prepared by management, with the oversight of those charged with governance), are prepared, in all material respects, in accordance with the applicable financial reporting framework
- Planning and performing the audit with an attitude of professional skepticism
- Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of the California CPA societies and California State Board of Accountancy
- Evaluating internal controls over financial reporting (ICFR) as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR
- Communicating to management and the Audit Committee all required information, including significant matters
- Communicating to the Audit Committee and management in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention

Risk Assessments

Significant audit areas	Significant estimates	Significant unusual transactions/other items
■ Investments	■ Determination of fair values	■ Complex and hard to value alternative investments
■ Medical Center revenue recognition	■ Contractual allowances and bad debts	■ Significant complexity in calculating contractual and bad debt allowances
■ Pension and postretirement obligations	■ Actuarial assumptions drive liability estimates	■ Implementation of new accounting pronouncements in the current year
■ Long-term debt	■ Calculation of economic gain/loss on refunding transactions	■ Refunding of debt in the current fiscal year
■ Grants and contracts	■ Significant compliance requirements attach to these revenues	■ Expenditures will be subject to audit procedures required by OMB Circular A-133
■ IT implementations	■ Significant implementations occurring throughout the System	■ Involve KPMG IT Specialists to evaluate critical systems that drive financial reporting

Audit Plan – Materiality

- Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.
- Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- Materiality depends on the size and nature of the item or error judged in the particular circumstances of its omission or misstatement.
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Independence

As your auditor, KPMG is subject to the independence standards imposed by the American Institute of Certified Public Accountants (AICPA), Code of Professional Ethics, the standards of independence established by Government Auditing Standards, published by the United States General Accounting Office (GAO), as well as the rules of the California State Board of Accountancy. We fully subscribe to those standards. We confirm that we, are “independent” of the University of California and its component units, as defined by the aforementioned standards.

Fees

UC Entity/Report	2015 Fees
UC Consolidated Entity	\$ 1,370,250
Single Audit (A-133 Audit)	393,900
Medical Center Audits	1,096,470
University of California Retirement System Audits	152,300
NCAA Agreed-Upon Procedures	85,925
Mortgage Origination Program Agreed-Upon Procedures	9,280
UC Captive Insurance Company Audit	28,600
UC Retirement Plan's Schedule of Cash Contributions	4,910
UCLA Medical Center Bond Opinion	2,455
Consolidated Form 990T Review	15,200
Total	\$ 3,159,290



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