

The Regents of the University of California

COMMITTEE ON COMPLIANCE AND AUDIT

September 18, 2013

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

Members Present: Regents De La Peña, Feingold, Flores, Makarechian, Ruiz, Schultz, and Zettel; Ex officio member Varner; Advisory member Gilly; Staff Advisors Barton and Coyne

In attendance: Regents Island, Kieffer, Pattiz, Reiss, and Wachter, Regents-designate Engelhorn, Leong Clancy, and Saifuddin, Faculty Representative Jacob, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice President Dooley, Vice Presidents Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Desmond-Hellmann, Dirks, Drake, Khosla, Leland, Wilcox, and Yang, and Recording Secretary Johns

The meeting convened at 3:40 p.m. with Committee Chair Zettel presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of July 17, 2013 were approved.

2. APPOINTMENT OF THE REGENTS' EXTERNAL AUDITOR

The President recommended that KPMG be approved as the Regents' external auditor for five years, commencing with the audit for the year ending June 30, 2014.

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

Chief Financial Officer Taylor recalled that about a year-and-a-half earlier, the Committee asked the administration to issue a Request for Proposals (RFP) for the University's external audit function. The last formal RFP had been conducted in 1999. Mr. Taylor was involved in the 1999 RFP in another capacity; he observed that by comparison, the process for the current RFP had been a smoother one.

Director Michael Riley described the RFP process, which took place over a period of nine months with a search committee of 28 members representing the campuses, campus foundations, medical centers, and the Office of the President. Five firms responded with intents to bid. Site visits were conducted at all ten campus locations, so that vendors

could familiarize themselves with UC and vice versa. Three firms submitted written proposals, and the search committee selected two firms for oral presentations. Rigorous and structured criteria were applied in evaluating the written proposals and oral presentations. UC procurement rules were followed throughout the process leading to the current recommendation.

Mr. Taylor stated that the University had had a very productive relationship with PricewaterhouseCoopers (PwC) over the past several years. The recommendation of the search committee, however, after thorough vetting, was to move to a new firm, KPMG, beginning with the audit for fiscal year 2013-14. Mr. Taylor thanked PwC for 14 years of good service to the University.

KPMG representative Mark Thomas stated that his firm was happy to dedicate a fresh set of eyes to the books and records of the UC system.

Committee Chair Zettel asked about Mr. Thomas' experience and the size of the KPMG team that would be conducting the UC audit. Mr. Thomas underscored the size and complexity of the UC audit and the tremendous effort required to conduct it, totaling approximately 30,000 work hours. KPMG had assembled a large team of experts. He indicated that his role within KPMG was that of national client leader of the higher education and not-for-profit practice. He had 30 years of experience in this area.

Regent Makarechian emphasized the magnitude of the audit transition from PwC to KPMG, with an entirely new set of people. He expressed concern about possible delays. He asked that the Committee members be apprised as far in advance as possible about the dates of meetings, updates, when audits would be completed, and when audit results would be presented and published, to give them ample time to read through and review audit materials, which are voluminous. Mr. Taylor responded that in the next few weeks he would provide the audit schedule for the next year. He recalled that the University is required by State law to submit materials to the State by October 15. UC works with outdated financial systems and the amount of work that can be completed by the end of July is limited; a great deal of work occurs in August and September. Mr. Thomas referred to Regent Makarechian's question about the transition from PwC to KPMG. He expressed the utmost respect for the PwC team that had worked on the UC audits, and his confidence that the transition would be accomplished effectively. Professional audit standards provide steps for the transition from one audit firm to another. He distinguished this transition from another transition, which involves quickly preparing the KPMG team to deal with significant UC transactions that had already taken place in the new fiscal year. KPMG had already held preliminary discussions with the University's finance team about transactions and the implementation of new Governmental Accounting Standards Board (GASB) pronouncements. Mr. Thomas noted that the University is in a unique position in that GASB often engages UC to participate in field studies of its pronouncements, so that the University has background experience as new pronouncements arise. Returning to Regent Makarechian's question, he stated that the transition to KPMG would begin immediately following UC's issuance of its financial

statements on October 15. There would be substantial meetings to discuss the next year's audit.

Regent Ruiz welcomed KPMG and thanked PwC for its many years of work.

Committee Chair Zettel also thanked PwC. She expressed appreciation for the RFP process and the work of the search committee, as well as surprise that there were not more proposals submitted by accounting firms. Mr. Taylor responded that some large national firms, such as Deloitte and Ernst & Young, have reduced the amount of their work with higher education and nonprofit clients, deciding to invest their resources elsewhere. Another factor is the size of the University and the need for a large number of external audit firm employees to work on site at the University's multiple locations for a compressed period of six weeks. The external auditor must be a large firm. He expressed the hope that in five years, when the University again issues an RFP, there would be a greater range of competition.

Committee Chair Zettel observed that the new contract would save the University over \$6.5 million.

Regent Schultz noted that GASB requirements and the University's own expectations were increasing. He asked if the total number of audit hours had changed. Mr. Thomas responded that KPMG had discussed the implementation of new auditing standards with UC. In KPMG's agreement with UC, the implementation of new standards is a part of doing business and is included in the quoted fees.

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

The meeting adjourned at 3:50 p.m.

Attest:

Secretary and Chief of Staff