

The Regents of the University of California

COMPLIANCE AND AUDIT COMMITTEE

March 18, 2020

The Compliance and Audit Committee met on the above date by teleconference meeting conducted in accordance with Paragraph 3 of Governor Newsom's Executive Order N-29-20.

Members Present: Regents Anguiano, Butler, Cohen, Elliott, Estolano, Makarechian, Park, Sures, Um, and Weddle; Ex officio member Pérez; Advisory member Bhavnani; Chancellors Christ, Gillman, Hawgood, Khosla, and Yang; Staff Advisor Klimow

In attendance: Regents Guber, Kieffer, Kounalakis, Lansing, Leib, Napolitano, Ortiz Oakley, Reilly, Sherman, Simmons, and Zettel, Regents-designate Mart, Muwwakkil, and Stegura, Faculty Representative Gauvain, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Bustamante, Provost Brown, Executive Vice President and Chief Operating Officer Nava, Interim Executive Vice President and Chief Finance Officer Jenny, Senior Vice President Holmes, Chancellor Block, Interim Chancellor Brostrom, and Recording Secretary Johns

The meeting convened at 12:00 p.m. with Committee Chair Elliott presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of January 23, 2020 were approved, Regents Anguiano, Butler, Cohen, Elliott, Estolano, Makarechian, Park, Pérez, Sures, Um, and Weddle voting "aye."¹

2. APPROVAL OF EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2020

The President of the University recommended that the PricewaterhouseCoopers (PwC) external audit plan and fees for the University for the year ending June 30, 2020, as shown on page 6 of Attachment 1, be approved.

[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.]

PricewaterhouseCoopers (PwC) representative Will Cobb stated that the scope of work proposed in PwC's external audit plan for the University for fiscal year 2020 was consistent with the scope of the audit for the 2019 fiscal year. The most significant elements of the plan were the audit of the University, each of the five medical centers, the UC retirement

¹ Roll call vote required by the Bagley-Keene Open Meeting Act [Government Code § 11123(b)(1)(D)] for all meetings held by teleconference.

system, and the Office of Management and Budget Uniform Guidance audit for federal grants and contracts. He anticipated that the current public health crisis would have a financial impact on the University, and this would inform PwC's risk assessment, but it was still premature to speculate what this impact might be. The timing of the audit plan work was consistent with the work in the prior year, as was the composition of the audit team. The Committee would be informed of any significant changes in timing, scope of work, or other areas.

Committee Chair Elliott recalled that, in past years, a certain percentage of the University's audit work was subcontracted to smaller, minority- and women-owned auditing firms. He asked if this was the case this year. Mr. Cobb responded that PwC did not have this provision in its contract with UC. Associate Vice President Peggy Arrivas explained that the University has subcontracted for certain audit services with a minority firm. UC had a five-year contract with that firm. That contract was not included in this external audit plan approval.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Butler, Cohen, Elliott, Estolano, Makarechian, Pérez, Sures, Um, and Weddle voting "aye."

3. **UPDATE ON SYSTEMWIDE AUDIT OF ADMISSIONS**

[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 Compliance and Audit Officer Bustamante began the update on the systemwide audit of undergraduate admissions by the Office of Ethics, Compliance and Audit Services (ECAS). ECAS had issued its Phase 2 findings for this audit on February 14. The University initiated this audit in response to the nationwide college admissions scandal. The audit comprised two phases. Phase 1, completed in June 2019, assessed UC's process for admissions and produced 34 recommendations to strengthen controls and reduce the risk of admissions fraud. ECAS began Phase 2 shortly thereafter. The primary objective of Phase 2 was to evaluate the effectiveness of controls that were identified during Phase 1. ECAS then did sample testing, focusing on high risk areas, and attempted to perform data analysis on the demographic characteristics of students admitted by exception and on the basis of special talents. ECAS was able to carry out this analysis for admissions by exception but not for special talent admissions.

Systemwide Deputy Audit Officer Matthew Hicks discussed the Phase 2 findings, organized in four areas. The first area was documentation. The sample testing of admissions by exception and special talent admissions indicated that there was inadequate documentation supporting admissions decisions and approvals, including an inadequately documented rationale for admissions by exception. ECAS also found instances of inadequate documentation supporting admission for special talent. The second area was application verification. An annual application verification process is performed by the UC systemwide admissions office, which verifies academic and non-academic achievements

of a limited sample of applicants through use of a third-party contractor. In its testing of the application verification process, ECAS found that there was often insufficient documentation on file to demonstrate appropriate verification of application information. ECAS also found instances in which applicants were granted excusal from the verification process with insufficient follow-up or action such as requesting documentation of alternative items. The third area was access to admissions information technology systems. ECAS found deficiencies in controls over access to systems. Campuses had inadequate mechanisms to monitor access. In sample testing of system users, ECAS identified users with access who no longer required access and users with access even though it did not align with their job responsibilities. The fourth area was tracking and monitoring of certain categories of admissions. Campuses were not systematically tracking special talent admissions in a centralized manner. ECAS was unable to identify the full population of special talent admissions and unable to perform data analysis on this admissions category. ECAS found instances of admissions by exception that were not properly categorized. These deficiencies in tracking and monitoring, in particular for special talent admissions, indicated that management was not currently able to provide accurate and reliable information on this category of admissions.

The audit work in Phase 2 identified an additional 14 recommendations, which supplemented those identified in Phase 1. In accordance with standard UC internal audit practice, each campus had identified Management Corrective Actions (MCAs) to address each recommendation. ECAS' Internal Audit program would follow up on MCAs to ensure that they have been appropriately implemented. ECAS was currently validating implementation of the Phase 1 recommendations and would perform a similar verification for the Phase 2 recommendations in the coming summer. The California State Auditor had also initiated its audit of UC admissions. The University had provided the State Auditor with full access to its own audit documentation. The State Auditor's report was expected to be released in August.

Committee Chair Elliott asked how the University's audit was coordinated or aligned with the State audit. Mr. Hicks responded that the scope of the UC audit included many of the same areas reviewed in the State audit. UC had provided the State Auditor with full access to its work papers. The State Auditor had indicated that it would use this material in order to reduce redundant requests for information.

Committee Chair Elliott commented that he was troubled by the findings of this audit. There was more work to be done on campuses to implement the recommendations resulting from the University's audit, and there would be work to follow up on findings that would result from the State Audit. He thanked ECAS for speaking with key legislators involved in the State audit request to make them aware of UC's actions and how seriously the University was taking this matter.

Regent-designate Muwwakkil asked about the circumstances of special talent admissions and how it was that data were lacking on special talent admissions. Mr. Hicks responded that special talent was one of a number of factors considered in UC's comprehensive review process for applicants. ECAS examined this area because of the fraud risk

associated with special talent as a consideration for admissions decisions. There was no existing systemwide policy or process for special talent in admissions. ECAS asked about verification, documentation, and who was recruiting special talent applicants, and found limited controls in this area. There was some degree of tracking of special talent admissions, usually at the departmental level, but no centralized tracking. For this reason, ECAS was not able to perform data analysis on numbers or demographics.

Regent-designate Muwwakkil asked how the process of special talent admissions functioned when a department wished to recruit a specific student. Mr. Hicks responded that all admissions decisions go through the comprehensive review process, which involves the admissions office. A recommendation can be made for admission on the basis of special talent. There was generally a standard process on each campus for these admissions, with final approval by the admissions director. In response to another question by Regent-designate Muwwakkil, Mr. Hicks confirmed that these offices had not been keeping any centralized records of this category of admissions, whether approved or denied.

Regent Butler asked if, in addition to the recommendations resulting from this audit, ECAS was making any recommendations for reducing the categories of exceptions being made in admissions. Mr. Bustamante responded that Academic Affairs at the Office of the President was examining these categories and considering how these processes could be strengthened. ECAS would like to see better documentation, segmented responsibilities, and effective controls that could be tested at some point in the future. Regent Butler suggested that this topic be taken up by the Academic and Student Affairs Committee. Provost Brown agreed with this suggestion. Committee Chair Elliott also concurred with the suggestion and remarked that he was troubled by the fact that data were not available on the demographics of individuals admitted by exception.

Regent Makarechian asked about the lack of documentation for special talent admissions. He referred to the audit report, which noted that Assembly Bill 1383 requires that each student admitted to the University by exception be approved by a minimum of three senior campus administrators, yet, in some circumstances, the University was using outside contractors for verification. He requested clarification of this last point. With regard to the first question, Mr. Hicks responded that ECAS had found, not across the board, but several instances of inadequate documentation on file to support special talent admissions. ECAS was not able to determine whether there had never been any documentation or documentation had not been retained. In a few cases, music departments had not retained documents related to auditions that are part of the special talent admissions process. ECAS recommended that these special talent admissions records be retained in alignment with UC records retention standards, which require that such records be retained for five years for matriculated students. The third party or outside contractor mentioned in the report performed systemwide verification of applications information, which was separate from the campus-based verification of special talent. In this process, the third party selects specific items in an application, such as work experience, and requests supporting documentation from the applicant.

Regent Makarechian expressed concern about the fact that applications with falsified information had not been detected by the verification process, in particular at UCLA. Mr. Bustamante responded that two different tracks were being pursued by UC in response to this situation. One, directed by ECAS, was focused on admissions processes and how to strengthen them. Investigations of individual cases were being carried out by the Office of the General Counsel, which could answer questions on these specific cases.

Regent Makarechian stated that no action had been taken. Mr. Bustamante disagreed. The University was taking action through two different tracks. One was an investigation being undertaken by the Office of the General Counsel into individual cases. ECAS had been tasked with examining admissions processes and determining how to strengthen the control environment so that it would become much harder for individuals to abuse the system. Individual matters at UCLA were not within the purview of ECAS but being addressed by the Office of the General Counsel.

Regent Makarechian asked to what extent certain recommendations made by ECAS in the report had been implemented. Mr. Hicks responded that ECAS had a standard process for all its recommendations. ECAS works with campuses to identify appropriate corrective actions and target dates. When management reports that it has implemented a recommendation, ECAS auditors verify this. There was a standard follow-up process.

Regent Makarechian expressed concern about fraudulent statements of student status and changes made to status through inappropriate access to information technology systems. Mr. Hicks responded that ECAS had not found evidence of fraudulent changes. ECAS identified gaps in internal controls, which could provide opportunities for bad actors, and it found excessive access to systems, beyond what certain individuals required. ECAS made several recommendations: to perform a one-time cleanup of access, institute periodic monitoring of access, and ensure that there is robust process for granting access.

Regent Makarechian asked if ECAS' specific recommendations regarding access to admissions information technology systems, as stated in the report, had been implemented. Mr. Hicks responded that ECAS was currently validating implementation of the first set of recommendations from Phase 1 of the audit, which were targeted for March. The second set, with a target date at the end of July, would be verified at that time.

Regent Weddle expressed concern about the equity implications of the audit findings of insufficient controls in admissions. She asked how national best practices or best practices of other institutions informed the recommendations. Mr. Bustamante responded that the University's audit of its admissions was unique. Most institutions performed individual investigations, which were privileged, and some carried out limited auditing of some admissions procedures. He was not aware of any other college or university that went to the lengths that UC did to examine its entire admissions system. He recalled that, in recent the college admissions fraud scandal, attention was initially focused on undergraduate admission slots for student athletes, which was a small percentage of the overall admissions process. The University reviewed its entire system and diagnosed issues in order to strengthen the system overall and prevent fraud. This effort was unique in higher education.

When corrective actions resulting from this audit were implemented, the University would be better able to address these issues.

Regent Weddle hoped that, as UC emerges as a model for tighter controls and robust review, it would share its experiences with other institutions. Mr. Bustamante responded that UC often collaborates with other institutions. If other institutions have questions about this audit, UC would provide answers and information. UC's general posture is to share knowledge with and learn from other institutions.

Provost Brown commented that special talent admissions are generally UC-eligible students. Special talent is an admissions criterion. He acknowledged that the University should have greater clarity about the range of its admissions categories. In response to a question by Committee Chair Elliott, he clarified that applicants who are identified as having a special talent are for the most part UC-eligible students; some are admitted by exception.

Regent Makarechian referred to a chart in the audit report showing the percentage of enrolled students from fall 2017 through winter 2020 who were admitted by exception. The total number of enrolled students was 204,350; the number of these students who had been admitted by exception was 3,409. He expressed concern about the fact that students who were UC-eligible were not being admitted in favor of these students. He asked if UC had a thorough review process to determine the special talents of applicants. He stressed that UC might have rejected students who were academically better qualified. Provost Brown stated that the University needed tighter controls in this area.

Regent Reilly asked if students admitted by exception met UC's minimum requirements or if the exception in their case was being admitted without meeting these requirements. Mr. Hicks responded that this was the exception. These students could not document or demonstrate that they met minimum requirements, such as A-G course work, the minimum GPA requirement, or taking standardized tests.

Regent Reilly asked what the criterion was for admitting these students or if there was no criterion. Mr. Hicks responded that Regents Policy outlines general criteria for undergraduate admissions. The University sets aside a certain percentage allocation for disadvantaged students, and the Academic Senate has further defined the rationale for admissions by exception. The audit work had found that, in specific instances, that rationale was not properly documented. The audit recommendations included recommendations for improving guidance, policy, and documentation of admissions by exception and the rationale for such admissions.

Committee Chair Elliott remarked that the information from this audit raised the question of what percentage of students admitted by exception were disadvantaged and how many were not.

Regent Reilly stated that she was surprised that the University did not have a policy explicitly outlining criteria for admissions by exception systemwide. Mr. Hicks responded

that there was guidance that defined such criteria, but it was not always clear which criteria were applied in specific cases.

Regent-designate Muwwakkil noted that, while it was desirable that applicants with special talents also have minimum eligibility, minimum eligibility was not necessarily competitive. He asked about specific criteria or a consistent standard for what qualified as special talent, why UC did not appear to have such criteria or such a standard, and if the University should tighten up these standards in the future. Mr. Hicks responded that Phase 1 of the audit found that there were no criteria for documentation and verification in cases of special talent admissions. One of the audit recommendations was that campuses establish a formal requirement for documented verification of special talent. ECAS believed that implementation of this recommendation would help establish more consistency and better control.

Regent Pérez stated that campuses needed to identify the criteria they were using and explain how they test for special talent. This was not merely a matter of checking boxes on a form. Another important question was how many students among those admitted by exception were disadvantaged. There must be clarity about what these disadvantages are, such as attending a high school that does not offer the A-G courses necessary to demonstrate certain academic skills. Regent Pérez recalled earlier concerns about admissions for out-of-state students. As campuses calculated adjustments to the GPA for these students, they did not do a good enough job of capturing the adjustments. The University asserted that, both individually and as a whole, the out-of-state students were at least as competitive as California resident students, but UC must be able to demonstrate this and do a better job of showing the calculations for any adjustments it makes and what the tests are that can guarantee the integrity of these judgment calls. The University should hold itself to the highest standards and be able to defend any admissions decisions that are exceptions from the standard process.

Regent Weddle observed that the recommendations resulting from the audit pertained to how criteria are applied and documented. This discussion had also raised questions about the criteria themselves. She suggested that there be a more detailed discussion at a future meeting about these criteria, including the questions of whether these criteria promote equity, make sense, or are objective. President Napolitano asked that this be taken up by the Academic and Student Affairs Committee at a future meeting. Committee Chair Elliott agreed with the President's suggestion.

The meeting adjourned at 12:45 p.m.

Attest:

Secretary and Chief of Staff

***Report to the Committee on
Compliance and Audit
FY2020 audit plan***

Regents of the University of California
March 17, 2020



February 19, 2020

Dear Members of the Committee:

We are pleased to have the opportunity to present our FY2020 Audit Plan for Regents of the University of California (the “University”). The information included in this report allows you to understand the judgments we have made in planning and scoping our audit procedures. This report includes information covering various considerations around the audit approach and trending topics.

This report was prepared based on information obtained from meetings with management, our knowledge of the University, our consideration of the operating environment and our risk assessment procedures. Our audit approach will remain flexible and responsive to the University’s environment. Any significant changes to our audit plan will be discussed with the Committee on Compliance and Audit at a future meeting.

We look forward to presenting this report, addressing your questions and discussing any other matters of interest. Please feel free to contact me at will.cobb@pwc.com with any questions you may have.

Very truly yours,

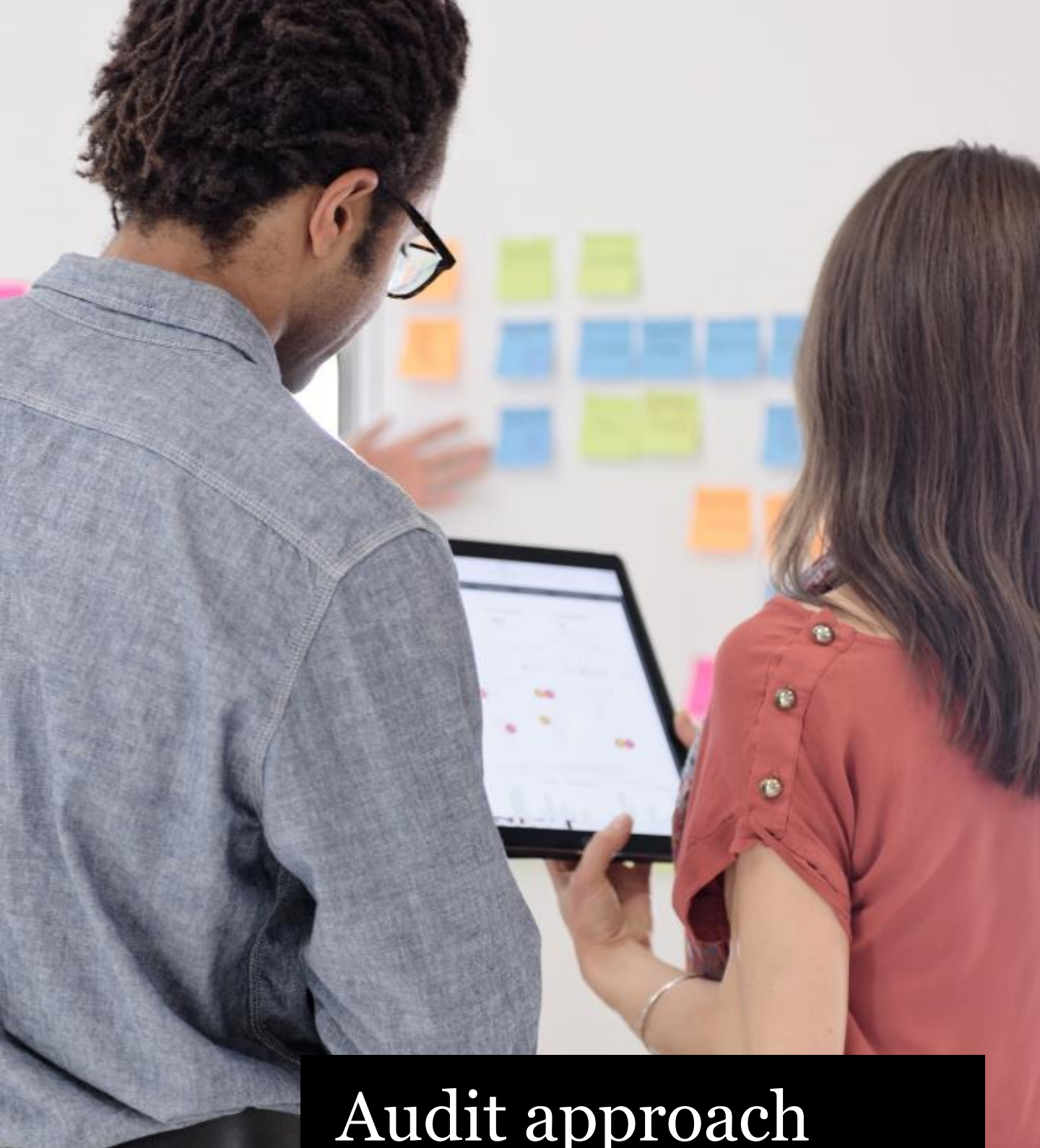
A handwritten signature in black ink that reads "Will Cobb".

Will Cobb
Engagement Partner

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This report and the information that it contains is intended solely for the information and use of the Committee on Compliance and Audit of the Regents of the University of California and should not be used by anyone other than these specified parties.



Audit approach

Audit objective



As the University's auditor, we are responsible for reporting on numerous financial statements.

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 and internal control issues from our professionals, including sharing experience on industry best practices

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

In performing our audits for 2020, our primary objectives are as follows:

- Opine on the University of California financial statements, University of California Retirement System financial statements, including the University defined benefit retirement plans, University retirement savings program and report on the University of California Retirement Plan's Schedule of Cash Contributions, and each of the five University Medical Centers, in accordance with generally accepted auditing standards (GAAS) and, as applicable, *Government Auditing Standards* (GAGAS).
- In connection with our audits, we will obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.
- Perform an audit of the University's compliance with federal award requirements in accordance with OMB Uniform Guidance.
- 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 a lesser magnitude identified during the audits.
- Pursuant to professional standards, communicate certain other matters to the Committee on a timely basis.

Audit objective

PwC Services and Related Deliverables to the University

In conjunction with our service in providing audit services to the University, we also provide certain other audit and attest services to the University. Refer to the table below for a listing of services and related deliverables we expect to provide. Prior to commencing any non-audit related 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. Our 2020 proposed fee of \$4,653,646 is inclusive of all out-of-pocket expenses which is consistent with our fee commitment agreed in 2016 as included in the professional services agreement signed on April 21, 2016 (inclusive of subsequent amendments).

- Audit reports
 - Report on the financial statements of the University of California
 - Report on the financial statements of each of the five Medical Centers
 - Report on the University of California Retirement System
 - Report on the University of California Cash Contributions to the Retirement System
 - Reports on federal awards in accordance with OMB Uniform Guidance
- Internal Control Observations
 - 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)
- Other Services
 - Agreed-upon Procedures on Intercollegiate Athletic Departments (NCAA requirements) for two campuses
 - Review of consolidated Form 990-T of the Regents of the University of California and University of California Retirement Plan
 - Procedures in connection with bond offerings
 - Accounting consultations and other assistance associated with emerging accounting and reporting issues and complex transactions
- Committee Reporting
 - Audit and communications plan
 - Results of audits and required communications

We note that the campus foundations, Fiat Lux Risk and Insurance Company ("Fiat Lux"), and the Benioff Children's Hospital of Oakland have separate audits of their financial statements and the auditor's reporting on those organizations are directed to their respective audit committees. Accordingly, this Audit and Communications Plan is not focused on the specifics of these entities.

Risk assessment process and results

Approach and definitions

Our audit approach is based on the following principles:

- The use of a top-down, risk-based approach
- The application of well-reasoned professional judgment

These principles, with the application of materiality, allow us to develop and execute our audit approach in an effective and efficient manner. The results of our risk assessment include the identification of audit risks and also drives the identification of significant accounts.

We evaluate audit risks as defined below:




Significant – requires special audit consideration in terms of the nature, timing or extent of testing (or in other respects) due to the risk’s nature, likely magnitude of potential misstatement, and/or likelihood of that risk occurring - including the possibility that the risk may give rise to multiple misstatements.



Elevated – requires additional audit consideration beyond what would be required for a normal risk, but which does not rise to the level of a significant risk because of the nature, likely magnitude of the potential misstatements and/or the likelihood of the risk occurring.

Normal – relates to the relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgment. Although a risk of material misstatement exists, there are no special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

We have outlined below the significant risk identified based on our preliminary risk assessment process, together with our planned audit response.

Risk	Related accounts
 Management Override of Controls	Pervasive

Planned audit response

We consider the incentives, pressures, and opportunities for management to commit fraud. We evaluate the design of internal controls as well as perform substantive tests of details for significant risk areas including testing journal entries, any significant unusual transactions, and evaluate estimates and assumptions utilized by management that could have a material impact on the financial statements. We will incorporate elements of unpredictability into our audit and conduct fraud inquiries of a number of individuals throughout the University.

Risk assessment process and results

Other Areas of Audit Focus

In addition to the significant risk identified above, we have identified the areas below that are not considered significant or elevated 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.

- Accounting and reporting for actuarially determined estimates (retirement plans and retiree health benefit obligations)
- 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 receivables and allowances such as pledges and medical center receivables
- Valuation of certain alternative investments
- Capitalization of fixed assets, particularly related to construction activity
- Notes, bonds payable and commercial paper liabilities
- 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 medical centers and benefit plans
- Implementation of GASB 84 *Fiduciary Activities* (see Trending Topics section)

Uniform Guidance Reporting and Compliance Risk

Although not considered a significant risk from a financial reporting standpoint, 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, financial aid, and other programs. These procedures are performed in connection with our OMB Uniform Guidance audit. The responsibilities surrounding the federal monies received bring about reputational risk and potential regulatory ramifications were there to be non-compliance with federal regulations.

Scoping

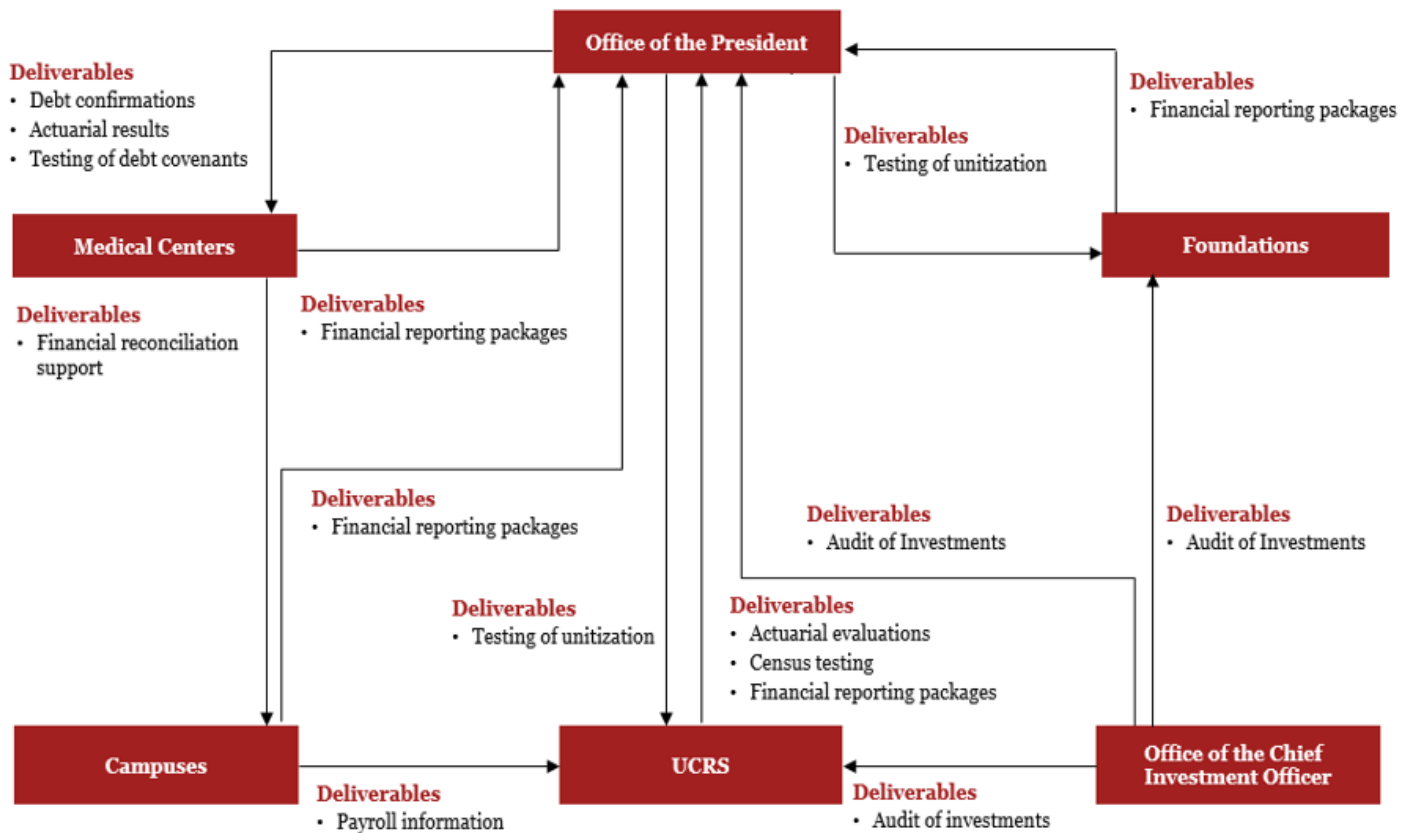
Financial statement scoping

PwC has adopted a consistent approach for our audit procedures at all University and University related entities. We have developed standardized reporting templates and common audit programs and approaches to achieve consistency and effectiveness. As a result, our reporting structure allows for local teams who understand the unique aspect of each entity but who work within the framework of a common reporting structure.

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

- Prepared and communicated 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. The following depicts the organization and flow of information among the different component audit teams.



Scoping

Financial statement scoping

Office of the President and Office of the Chief Investment Officer – Audit procedures are performed as necessary at these locations in order to opine on the financial statements of the University. We also take into consideration in our audit scope for these locations the requirements of the medical centers audits, the UCRS audit and the audits of the campus foundations. In particular, the investment work we perform at the Office of the Chief Investment Officer has a wide-sweeping impact on the various University components.

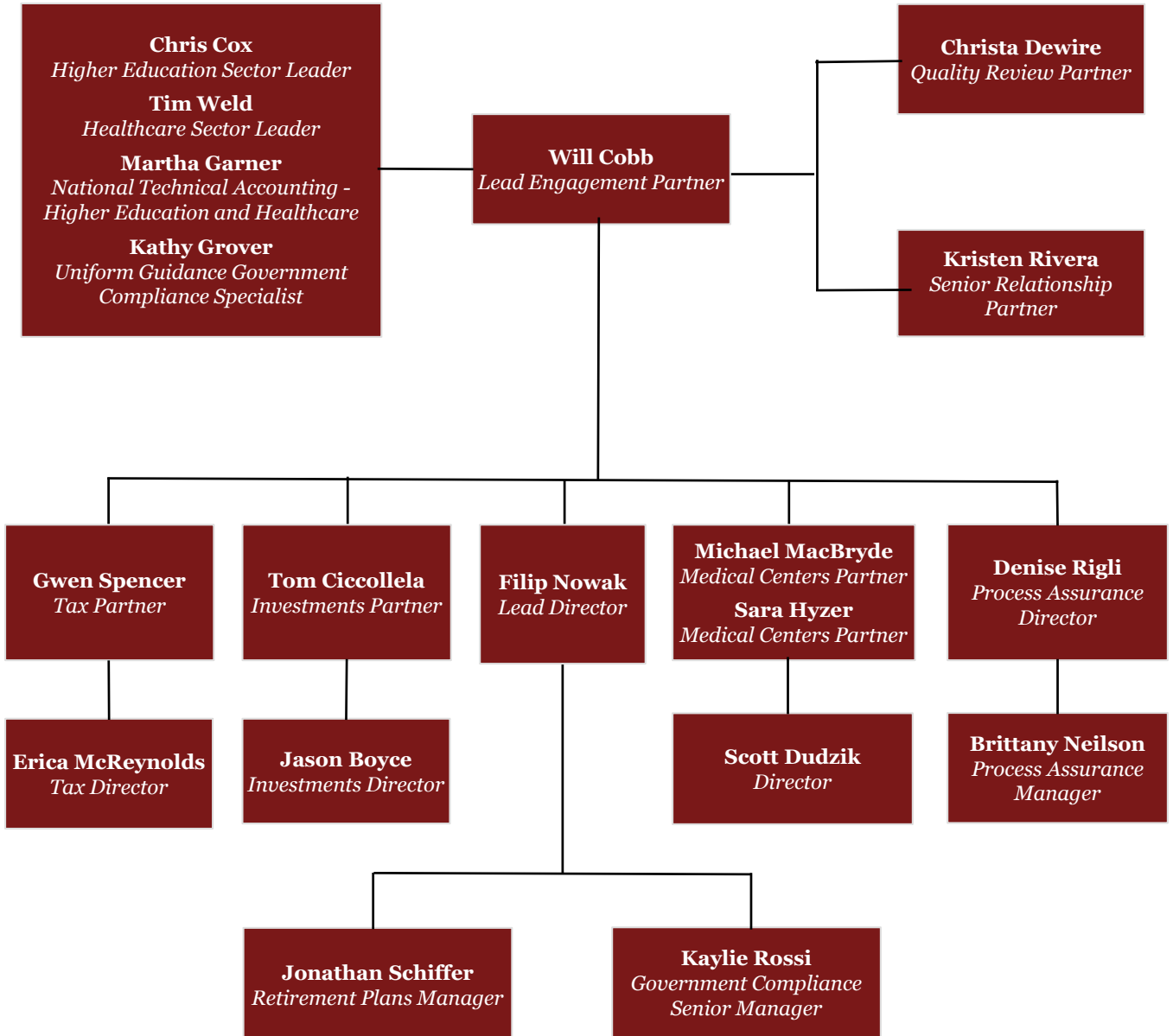
Medical Centers and UCRS - As described throughout this document, we perform audits of the stand-alone financial statements for the five medical centers and the University Retirement System which consists of multiple benefit plans. We rely on those stand-alone audits for purposes of the audit of the University’s financial statements and fiduciary fund financial statements.

Campuses – We perform specific audit procedures at the campus locations as needed to achieve sufficient coverage to express an opinion on the University’s financial statements. We are in the process of determining which locations will be in scope in the current year.

Foundations – The audits of the campus foundations are performed by separate foundation audit teams. However, as the combined financial statements of the campus foundations are presented discretely in the University’s financial statements, we coordinate with and rely upon the work performed by the campus foundation teams.

At each location, 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.







Client service team



Client service team

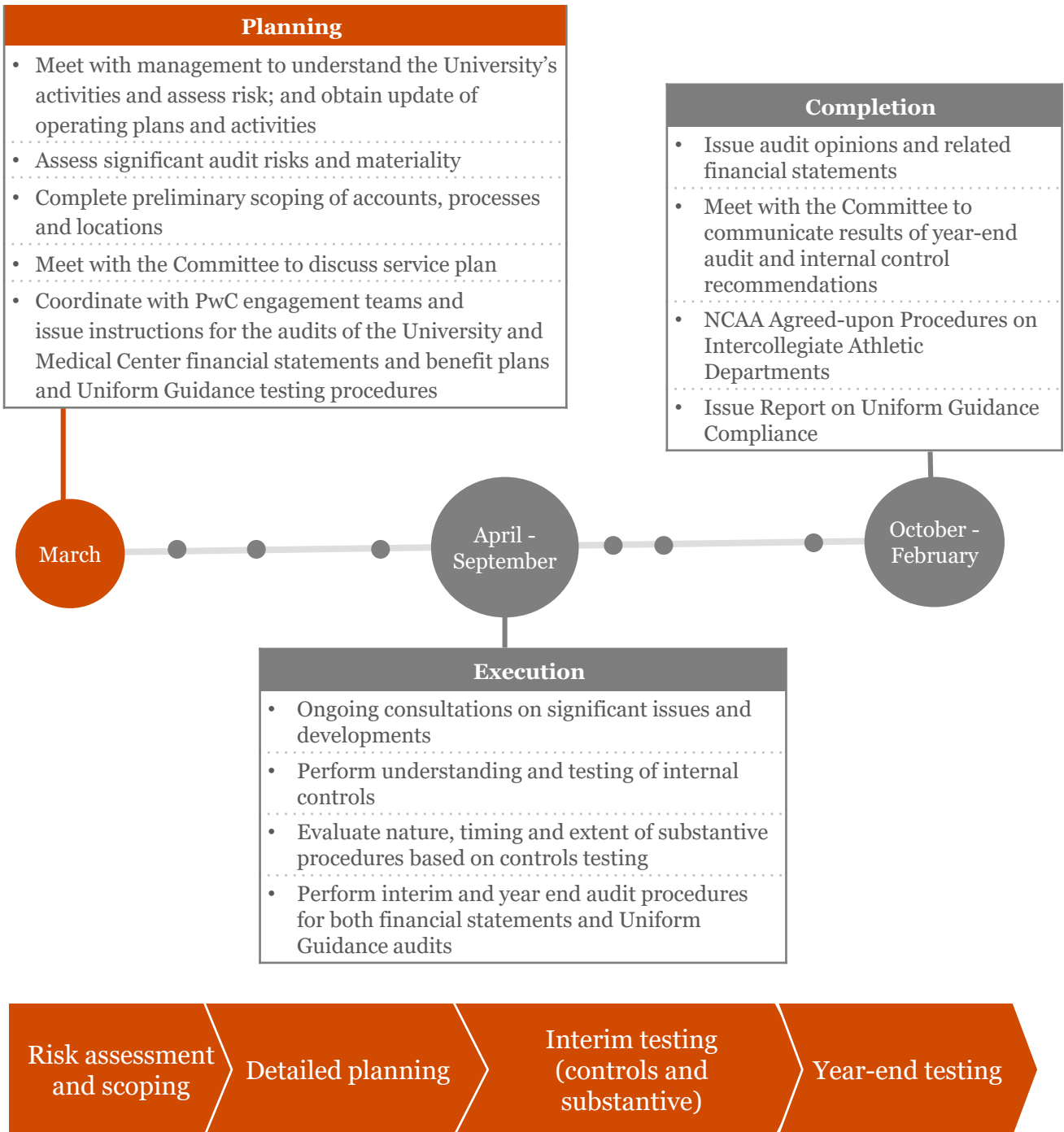
Specialists

The University operates in a highly complex environment, requiring additional expertise beyond traditional audit resources. During the course of our audits, we will utilize 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 postemployment 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	Assistance with the evaluation of the fair value of investments and related disclosures
 Compensation and Benefit Plans	Review actuarial assumptions related to compensation programs and benefit plans
 Healthcare Reimbursements	Review third party account transactions subject to complex rules and interpretation
 Information Technology	Review and testing of IT and application controls
 Healthcare Compliance	Provide guidance to Medical Center audit teams and the University regarding healthcare compliance requirements
 Regulatory Compliance	Review the University's Uniform Guidance report and provide perspective on federal agencies' monitoring and expectations of award recipients

Timeline and communication plan

The table below outlines our expected timing of communications and planned audit procedures. In addition, we may communicate with you more frequently, if and when significant matters arise.



Other required communications

Fraud

We are required to make certain inquiries of the Committee on Compliance and Audit related to fraud risks. In addition, as part of our overall response to fraud risk, we incorporate unpredictability into our audit by modifying the nature, timing and extent of our procedures.

Fraud is a broad legal concept and auditors do not make legal determinations of whether fraud has occurred. Rather, the auditor's interest specifically relates to acts that result in a material misstatement of the financial statements. The primary factor that distinguishes fraud from error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. The following two types of misstatements are relevant to the auditor's consideration of fraud:

Fraud items for discussion:

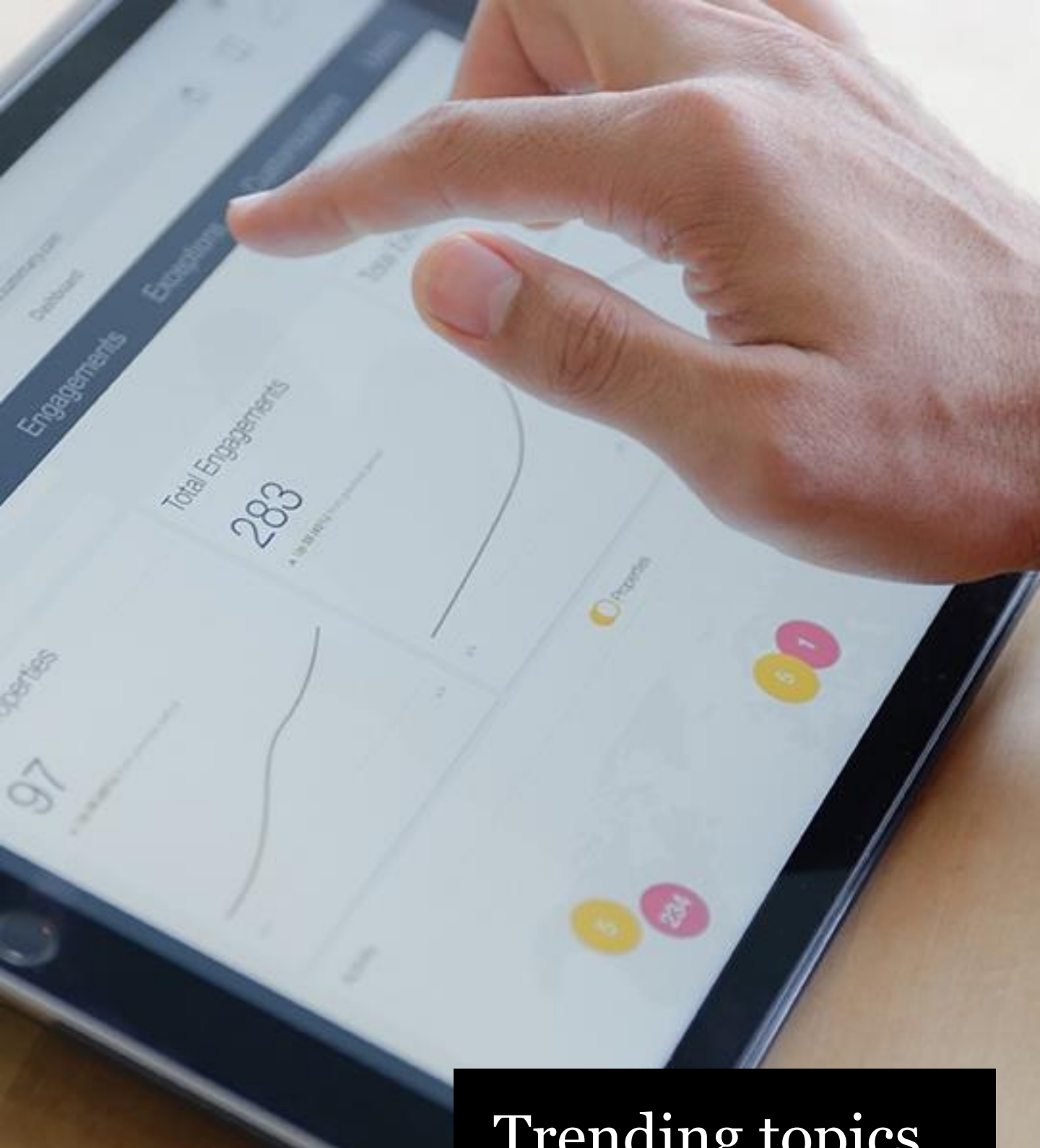
- Programs and controls in place to mitigate the risk of fraud and error
- Specific concerns about the risk of fraud or error
- Any actual, alleged or suspected fraud
- Oversight of the assessment of fraud risks and mitigating controls
- Violations or possible violations of law
- Nature and extent of communications about misappropriations by lower level employees
- Other matters relevant to the audit

Misstatements arising from fraudulent financial reporting are intentional misstatements or omissions of amounts or disclosures in financial statements designed to deceive financial statement users where the effect causes the financial statements not to be presented, in all material respects, in conformity with generally accepted accounting principles (GAAP).

Misstatements arising from misappropriation of assets (sometimes referred to as theft or defalcation) involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented, in all material respects, in conformity with GAAP.

Other required communications

Independence	<p>There were no relationships or other matters identified that might reasonably be thought to bear on independence.</p> <p>In accordance with the AICPA's Code of Professional Conduct, we are required to communicate a breach of external independence requirements to you as soon as possible or in line with a communication protocol that is confirmed in writing. As of the date of this report, we are not aware of any breach of external independence requirements since the time of our last meeting.</p>
Non-compliance with laws and regulations and illegal acts	<p>We are not aware of any instances of non-compliance with laws and regulations. We are not aware of any potential illegal acts.</p>
Significant issues discussed with management prior to appointment or retention	<p>There were no significant issues discussed with management in connection with the retention of PwC.</p>
Materiality	<p>We determine the materiality level for the financial statements as a whole for purposes of (1) identifying and assessing risks of material misstatement and (2) for determining the nature, timing and extent of audit procedures. 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 basis for calculating materiality. The benchmark we use to calculate materiality varies based on the audit being performed.</p> <p>For the University's financial statements, we use total assets as our benchmark. Industry practice is to apply a percentage to this benchmark of total assets to calculate overall materiality.</p> <p>For the University's medical centers' financial statements, we use total operating revenues as our benchmark. Industry practice is to apply a percentage to this benchmark of total operating revenues to calculate overall materiality.</p> <p>For the University's benefit plans, we will use fiduciary net position as our benchmark for the Defined Benefit Plans and UCRSP, and total deductions from net position for the UCRHBT. Industry practice is to apply a percentage to these benchmarks to calculate overall materiality.</p>
Obtain information relevant to the audit	<p>We will inquire of the Committee on Compliance and Audit about whether it is aware of matters relevant to the audit and about the risks of material misstatement.</p>



Trending topics

Trending Topics

GASB 84: Fiduciary activities

GASB Statement No. 84, *Fiduciary Activities*, is applicable and will be implemented by the University in the current fiscal year 2020. GASB 84 was issued in January 2017 to enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this Statement apply to the financial statements of all state and local governments.

The focus of the criteria for identifying activities that should be reported as fiduciary activities generally is on:

- (1) whether a government is controlling the assets of the fiduciary activity and
- (2) the beneficiaries with whom a fiduciary relationship exists.

Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in the fiduciary fund financial statements (a statement of fiduciary net position and a statement of changes in fiduciary net position) of the basic financial statements.

This Statement describes four fiduciary funds that should be reported, if applicable:

- (1) pension (and other employee benefit) trust funds,
- (2) investment trust funds,
- (3) private-purpose trust funds and
- (4) custodial funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.



Trending Topics



Top health industry issues of 2020

In 2020, US healthcare, and especially how it is delivered and how much we pay for it, will be top of mind. Politicians will float many bold plans for transforming the industry. Health system leaders will tout their investments in technology and transformation, as the US health industry works to catch up to the rest of the digital economy. The question for 2020 will be whether this digital transformation will benefit consumers — marking a new dawn for the US health industry and for the people whose lives depend on it.

Read more: <https://www.pwc.com/us/en/industries/health-industries/assets/pwc-us-health-top-health-issues.pdf>

Perspectives in higher education: 2019

The 2019 report addresses the admissions scandal, our annual Washington update, our views on the state of compliance and the future of liberal arts education. Additionally, we feature certain key items institutions are focused on including technological innovation, investments in campus facilities and international areas of focus. Finally, with the myriad of opportunities and challenges facing institutions, the role of the audit committee have never been more important and we take a closer look at their current role, as well as best practices associated with crisis management.



Read more: <https://www.pwc.com/us/en/industries/health-industries/health-research-institute/assets/pwc-perspectives-in-higher-education-final-2019.pdf>

