

The Regents of the University of California

**COMPLIANCE AND AUDIT COMMITTEE**

March 17, 2021

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, and Sures; Ex officio member Pérez; Advisory members Gauvain and Zaragoza; Chancellors Christ, Gillman, Hawgood, Khosla, and Larive; Expert Financial Advisor Schini; Staff Advisor Jeffrey

In attendance: Regents Drake, Kounalakis, Leib, Mart, Muwwakkil, Ortiz Oakley, Reilly, Sherman, and Stegura, Regents-designate Lott and Torres, Faculty Representative Horwitz, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Bustamante, Provost Brown, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President Byington, Chancellors Block, May, Muñoz, and Wilcox, and Recording Secretary Johns

The meeting convened at 2:35 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 21, 2021 were approved, Regents Anguiano, Butler, Cohen, Elliott, Estolano, Makarechian, Park, and Pérez voting "aye."<sup>1</sup>

**2. APPROVAL OF THE EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2021**

The President of the University recommended that the PricewaterhouseCoopers (PwC) external audit plan for the University for the year ending June 30, 2021, as shown on page 7 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.]

Committee Chair Elliott briefly introduced the item. Executive Vice President and Chief Financial Officer Brostrom noted that no changes from the prior year plan were being recommended in the external audit plan for this year.

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

Associate Vice President Peggy Arrivas reported that the Committee's Expert Financial Advisor Michael Schini had reviewed this plan on behalf of the Committee.

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

3. **UPDATE ON IMPLEMENTATION OF RECOMMENDATIONS FROM THE STATE AUDIT OF UNIVERSITY OF CALIFORNIA ADMISSIONS POLICIES AND PRACTICES**

[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.]

Provost Brown explained that this discussion would highlight the University's efforts to ensure the utmost integrity of its undergraduate admissions process. UC was midway through the first year of implementation of the California State Auditor's recommendations from its audit of UC admissions policies and practices. The University's 180-day report on implementation would be due on March 22.

Deputy General Counsel Margaret Wu discussed athletics admissions. When college athletics admissions became a nationwide issue two years prior, UC prioritized identifying and fixing systemic problems in its processes for admitting student athletes. Those systemwide policy changes began in 2019, continued into fall 2020, and built upon improvements that individual campuses had made over time. The State Auditor's report stated that, between 2013 and 2018, 22 applicants on four campuses—Berkeley, Los Angeles, Santa Barbara, and San Diego—were inappropriately tagged as athletic recruits. All of these students were admitted before the current systemwide changes were put in place. The University obtained information from the State Auditor about each of these cases and reviewed the individual cases. The campuses were continuing to delve into the cases to understand the full context of each of these admissions and to determine if further corrective actions were warranted.

A few observations could be made at this point. These cases all reflected communications about relationships that applicants or their families had with a coach, donor, or potential donor. The level of prior athletic experience was mixed; some of the students had prior experience of the sport for which they were recruited, but others had none. Most did not have significant or any participation as an athlete following admission, although at least two did participate as athletes on their teams beyond their freshman year. The University took these cases very seriously, although none of these cases were of the "Varsity Blues" type, in that they did not involve criminal bribes and falsified documents. In order to provide context, Ms. Wu noted that these 22 athletic cases were among 2.4 million applicants and independent decisions made among the four campuses during this six-year period of the State Auditor's review. During the same six-year period, these campuses admitted thousands of student athletes. Applicants who are tagged as athletes are not automatically admitted to UC. Campuses review them for academic qualifications and their

ability to succeed academically at UC. In the 22 cases, all but one were eligible for regular admission to UC in terms of their academic qualifications. Notwithstanding this context, the University recognized that even one problematic case was too many. Systemwide policy changes now restricted communications between development and admissions personnel, required verification of athletic ability for tagged recruits, and required recruits to commit to play for at least one year in their sport. Ms. Wu asserted that these and other improvements made would prevent these types of problems in the future.

Chief Compliance and Audit Officer Bustamante discussed an analysis carried out by the Office of Ethics, Compliance and Audit Services (ECAS) on 41 cases at UC Berkeley of regular, non-athletic undergraduate admissions identified in the State Auditor's report. ECAS obtained approximately 170 pages of documents that the State Auditor had relied upon for its conclusions. ECAS examined these documents carefully and, in order to ensure thoroughness, performed a separate forensic analysis to identify other potentially relevant documents. In this analysis, ECAS examined the email accounts for admissions and development personnel for the relevant six-year time period and conducted searches for the identified applicant names or application numbers. In total, ECAS obtained about 10,000 pages of documents. ECAS searched these documents and found a few additional relevant email messages or other documents related to the 41 cases. The vast majority of these documents reflected standard admissions correspondence. Subject matter experts then analyzed each applicant file for, among other things, irregularities in competitiveness. ECAS concluded the following: ECAS identified instances of concerning and questionable communication and a series of process-related issues, but, based on the information ECAS had, it was not able to conclude that any individual admissions decision was inappropriately influenced. ECAS did identify several cases that merited further analysis and provided these to Academic Affairs for further review.

Mr. Brown reported that, with regard to the evaluation of communications associated with the cases identified by the State Auditor, the types of communications that the Office of the President (UCOP) reviewed included lists of applicants sent from the development to the admissions office; personal recommendations or referrals from donors, Regents, faculty, and staff; notes regarding applicant relationships to faculty and staff; recommendations or referrals from high school counselors; and recommendations or referrals from outreach programs. Some communications were appropriate, such as referrals from outreach programs, but others were not, such as notes regarding an applicant's relationship to faculty or staff. Following these reviews, UC has improved its processes and policies to address inappropriate communications by creating a firewall to reduce the risk of influence. For example, policies were now in place prohibiting communication development or athletics departments and admissions offices prior to admissions decisions.

UCOP reviewed the 41 regular, non-athletic admissions cases at UC Berkeley identified by the State Auditor, including the applicants' grade point averages (GPA), test scores, and other academic and contextual factors, as well as the application reader recommendations. These 41 decisions were among 79,000 offers of admission made from a pool of 247,000 applicants to UC Berkeley over a three-year period. UCOP found that 37 of the

41 students were easily competitive among the applicant pool; they had high grades and test scores, essentially indistinguishable from those of other students admitted to UC Berkeley or other UC campuses. All the identified students were UC-eligible or had comparable credentials. Twenty-seven of the 41 students reported SAT scores at or above 1,400; 12 scored at or above 1,500. Fifty-five percent of the 41 students achieved high school GPAs above 4.0; 27 percent were Eligible in the Local Context, which meant that they were in the top nine percent of their high school class. There were 11 students whose grades and test scores were competitive but lower than the UC Berkeley average, but they had participated in UC outreach programs, disclosed a disability, or attended a high school where more than 75 percent of students were low-income, English language learners, or foster youth. On the whole, the students in these cases were outstanding students with the profile of students that UC welcomes to the University.

Twenty-seven percent of these students had two initial application reader assessments of “do not recommend.” These assessments were of relative competitiveness in the applicant pool, but were not dispositive, final, or the only factor used to make an admissions decision. More than 1,000 admissions to UC Berkeley during this period were of applicants who received two initial assessments of “do not recommend.” The ultimate decision about admission of an applicant reflects a number of additional factors, including enrollment targets for the campus and for specific programs and majors. In spite the appearance of attempts to influence an admissions decision, UCOP found insufficient evidence to support the idea that any admissions decision resulted directly from inappropriate influence. Out of the 41 cases, there was one notable case of a qualified but less than competitive student whose admission was questionable, based on suspect communications and the fact that there were no obvious mitigating circumstances, such as participation in an outreach program. Academic Affairs was consulting with ECAS and the Office of the General Counsel to determine the appropriate next steps in that case.

Mr. Brown underscored that the University found several areas or opportunities for improvement and had made changes to its admissions process. UC had made significant enhancements to its athletic and non-athletic admissions to strengthen defenses against the risk of inappropriate activity. Many of these changes were initiated by UC’s internal audit function, and UC furthered them by incorporating recommendations made by the State Auditor. UC had implemented extensive protocols to verify athletic talent and monitor student athletic participation. A two-person authentication process was now in place. There were new policies prohibiting communication between development and admissions offices regarding the admissions status of specific applicants. There were policies and procedures to address conflicts of interest in admissions decisions. There were enhancements to documentation supporting admissions processes and methodologies, and additional training and monitoring protocols to ensure ongoing compliance with policies.

President Drake had issued a letter to the chancellors in November 2020 providing direction on implementing the State Auditor’s recommendations and requiring that the campuses provide supporting documentation by mid-January 2021. UCOP then carefully reviewed that documentation to assess its alignment with the State Auditor’s criteria and President Drake’s letter. UCOP provided feedback to the campuses to address any gaps

identified. The campuses were working to make and document these improvements. The implementation work would be completed by June 15.

Mr. Brown concluded the presentation by noting that no admissions process was perfect, particularly in a university system where 1,000 people on nine campuses independently reviewed more than one million files annually. The University was working to improve this process, taking actions and using findings by the State Auditor and UC internal audit. UC was implementing more and better controls to safeguard the fairness of its admissions practices for every applicant.

Committee Chair Elliott stated his understanding that, among the non-athletic admissions cases identified, there was only one case where inappropriate influence might have affected a decision. He asked if this meant that the process in the other cases was completely appropriate, and that any inappropriate influence or communications did not have any effect, or if the University was unable to determine whether or not an admissions decision was made based on improper influence. Mr. Brown responded that the latter was the case. One could not say that there was no improper influence, but UC could not find such influence.

Committee Chair Elliott stressed the importance of understanding this last point. Mr. Brown underscored that UC was implementing changes to make it even harder for such circumstances to occur.

Committee Chair Elliott referred to background materials and the University's 60-day update on implementation of the State Auditor's recommendations. Several recommendations had an estimated completion date of March 2021, while the State Auditor's assessment was that the implementation was pending for these items. He asked about the reasons for this. Systemwide Deputy Audit Officer Matthew Hicks explained that the assessments listed in the background materials were part of the 60-day update. UC had not yet submitted the six-month update, which would reflect the work completed through March.

Regent Cohen referred to the 60-day update and the State Auditor's assessments. In a number of cases, UC relied on the President's November letter, alerting campuses to these programmatic changes, and the State Auditor's assessment stated the expectation that UCOP formalize these measures. The State Auditor did not appear to understand the President's letter as being policy formalization. Regent Cohen asked if this would occur at the campus level, with ten different formalizations at ten different campuses. Mr. Brown responded that the campuses would submit documentation of their compliance. Mr. Hicks stated his understanding that the directive itself was not evidence of protocol. The State Auditor had marked the status of these recommendations as "pending" because it was waiting for the implementation of policy.

Regent Cohen quoted a statement by the State Auditor in the background material to the effect that it would consider a recommendation fully implemented "when the Office of the President formally documents prohibitions against these actions." He asked if this raised a

question about governance, in which the State Auditor expected UCOP to formalize procedures, while the University expected campuses to do so. Mr. Hicks anticipated that there would be clarification of this point in the six-month update and the State Auditor's response.

Regent Cohen asked if all campuses had formally documented the actions required by President Drake in his letter. Mr. Hicks responded that, based on UCOP's review of the documentation, there were issues about the strength of the language in some documents. UCOP had provided feedback to the campuses, and this was currently being worked on.

Regent Cohen asked whether, when the six-month report was submitted to the State Auditor the following week, the State Auditor would still have concerns or whether UC assumed that it would have completed the recommendations. Mr. Brown responded that UC assumed that it would have full compliance by June 15; if UC could complete the work earlier, it would.

Committee Chair Elliott asked why the estimated completion date for a number of recommendations was March 2021. Mr. Hicks responded that this was the estimated completion date as of the 60-day update.

Committee Chair Elliott asked if this meant that it would take UC several months longer to comply with the recommendations. Mr. Brown responded in the affirmative.

Regent Cohen referred to information shown on a slide, stating that in July 2021, UCOP would conduct annual compliance of admissions by exception. He requested clarification of this procedure. Executive Director of Undergraduate Admissions Han Mi Yoon-Wu explained that the recommendation asked for a random sampling of campus admissions by exception decisions. Her office would undertake this exercise after the fall admissions were complete.

Regent Cohen asked if her office had established protocols for the percentage that would be sampled. Ms. Yoon-Wu responded that her office had not yet documented those protocols. This documentation had yet to occur.

Regent Muwwakkil referred to information shown on a slide about changes UC was making protocols and requirements about donors and personal relationships; these changes were indicated to be in progress. He asked if these measures would be completed when the six-month report was submitted to the State Auditor, or if implementation work would continue through June. Mr. Brown responded that June 15 was the date for complete implementation; he hoped that these items would be completed sooner.

Regent Muwwakkil observed that the category of inappropriate communications could be a difficult one, in that any communication could be seen as inappropriate, based on its impact. Faculty, staff, or friends of the University would inevitably communicate that fact that their child was applying to UC. He asked how UC would address this category, whether by indicating that this type of communication had occurred and setting it aside, or

by some other intervention. Mr. Brown responded that the goal would be to separate such communications from the admissions decision and the admissions process. It was important to create a firewall.

Committee Chair Elliott stated his understanding that communications from faculty, staff, families, and donors would be inappropriate, while communications from high school counselors would be expected and appropriate. Mr. Brown responded that this was correct.

Regent Park asked about high schools that were eligible to participate in the Eligibility in the Local Context (ELC) program but did not do so. Ms. Yoon-Wu responded that UC had examined these schools by demographics, student population, percentages of underrepresented and low-income students, and numbers of students applying to and enrolling at UC. The University also identified at which of these schools it already had outreach programs. The previous month, UC had communicated with almost 1,000 non-participating schools. The University did not know whether these schools were eligible to participate in ELC, but sent them an outreach letter with information about the program and how to participate.

Regent Park asked if there were 379 schools eligible to participate in ELC but which were not participating. Ms. Yoon-Wu responded in the affirmative. Regent Park asked how many schools participated in the ELC program. Ms. Yoon-Wu responded that there were about 1,600 schools participating. Regent Park asked about the other non-participating schools, beyond the 379 that had been identified. Ms. Yoon-Wu explained that UC had received a list of these schools from the California Department of Education. The University did not know if these were continuation schools, alternative schools, or virtual schools, which were not allowed to participate in ELC under current policy; UC also did not know if these schools offered the A-G courses required for UC eligibility. Regent Park asked if UC planned to conduct a survey to better understand why these schools were not participating. Ms. Yoon-Wu responded that UC had received 30 inquiries to its outreach letter from schools that intended to participate in the ELC program. Virtual schools were waiting to see if they would be eligible to participate. The schools had until July to respond to UC about participation. The University would distribute a survey to schools that either indicated that they did not wish to participate or did not respond to find out why these schools were not interested or able to participate. Mr. Brown added that lack of resources, inability to offer A-G courses, and logistical factors such as receiving permissions from parents were some of the reasons for non-participation.

Regent Park suggested that the University's findings and efforts in this area be reported to the Academic and Student Affairs Committee as a separate item. Mr. Brown responded that this could be done. He noted that, in 2012, about 1,200 schools participated in the ELC program, while now there were about 1,600 schools participating. Given some of the factors involved, it was clear that aggressive outreach was necessary.

Regent Zaragoza asked about enhancements being made to the training for application readers. She asked about the type of changes being made, if these changes would be mandated systemwide, and about the oversight process. Ms. Yoon-Wu responded that the

application reading cycle had just concluded a few weeks prior. Most campuses had already made significant improvements to reader training. All readers were taking part in implicit bias training, as well as undergoing annual certification for knowledge of admissions policies. There was continual monitoring throughout the reading season. The improvement that UC was still verifying was the documentation of all the processes that had already taken place for the fall 2021 admissions cycle.

Regent Zaragoza asked if there was a way for application readers to report misconduct or provide feedback for improving the process. Ms. Yoon-Wu responded that one of the recommendations from the State audit was to have a specific process to report instances of inappropriate activity or attempts to influence admissions. This was included in reader training as well.

Regent Butler referred to the 60-day update and the State Auditor's assessments, summarized in the background materials. For three recommendations, the materials indicated that "The Office of the President is currently evaluating the implementation of this recommendation." There was no estimated date for completion of two of these recommendations. She asked if there were particular challenges associated with these recommendations or if the University was not ready to implement changes in these areas. Mr. Brown explained that one of these recommendations would essentially place UC Berkeley's admissions process under receivership; the second would require potentially biasing information to be removed from the application information; and the third would require an extensive audit process. Before UC could make a decision about these recommendations, the University needed to analyze the State Auditor's findings. UC was completing that analysis and had not yet made any determination regarding these three recommendations. This current conversation with the Regents was an important part of the finalization process.

Committee Chair Elliott thanked the presenters for their work on and attention to this matter, which would continue for a number of months to come.

The meeting adjourned at 3:20 p.m.

Attest:

Secretary and Chief of Staff



Tomorrow's audit, today

# Report to the Committee on Compliance and Audit

FY2021 audit plan

Regents of the University of California  
March 17, 2021



# Bringing you tomorrow's audit, today

February 9, 2021

Dear Members of the Committee:

We never forget our responsibility to deliver exceptional quality in our audits and build trust in the capital markets. That quality-first, purpose-always mindset never changes, and it's what drives the University of California's audit. But we're also innovators, excited to share how we're doing that while reimagining your audit experience through an approach that is people-led and technology-powered.

This report was prepared based on meetings with management, consideration of the operating environment and our risk assessment procedures. As in past years our audit approach will remain responsive to the University's environment. Any significant changes to our audit plan will be shared and discussed with the Committee at a future meeting.

Sharing our audit plan helps to ensure our PwC engagement team members understand your concerns and together we agree on mutual needs and expectations, enabling us to provide the highest level of service, audit quality, and value. Additionally, the information included within this report allows the Committee to understand the judgments we have made in planning and scoping our audit procedures. We remain committed to candid discussions with the Committee and management, delivering a high-quality audit, as well as providing an independent point of view. We welcome your feedback throughout the audit.

If you have any questions about matters discussed herein, or wish to discuss any other matters, please do not hesitate to contact me at [will.cobb@pwc.com](mailto:will.cobb@pwc.com).

Very truly yours,



Will Cobb  
Engagement Partner

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PwC | Report to the Committee on Compliance and Audit

**Delivering  
exceptional quality**

**Through our  
unique combination  
of people  
and technology**

## **Rooted in our core values**



**Make a  
difference**



**Reimagine  
the possible**



**Act with  
integrity**



**Work  
together**



**Care**

# What's inside

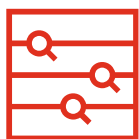
<b>Audits in a virtual environment</b>	<b>4</b>
<b>Our approach</b>	<b>5</b>
Audit objective	6
Risk assessment overview	8
Risk assessment results	9
Scoping	10
Meet your digitally upskilled audit team	12
Specialists	13
Timeline and communication plan	14
<b>Other required communications</b>	<b>15</b>
<b>Trending topics</b>	<b>17</b>

This report and the information that it contains is intended solely for the information and use of the Committee on Compliance and Audit or management, if appropriate, and should not be used by anyone other than these specified parties.

# Audits in a virtual environment—keeping on track

We expect to see a slow and gradual return to the workplace: Most of us at PwC, as well as the majority of our clients, will likely be working remotely throughout 2021. We will continue to closely follow our firm, Federal, State and Local guidance in response to the pandemic and will coordinate with you on related considerations as needed.

Since mid-March 2020, we have gained considerable experience completing year-end audits while working remotely. That experience has provided us—and our clients—with confidence in our capabilities to complete end-to-end audit activities while working remotely. We are able to serve you while working remotely without missing a beat. We've leveraged our collective learnings from completing audits while working remotely to inform how we will effectively conduct your audit virtually. Above all, coordination across our team and yours is essential to delivering a seamless audit experience. The following are key actions that will enable us to keep your audit on track:



**Continuing activities instead of deferring them**—We should not defer work in the hope that it can be performed when there is a return to the workplace. Proceeding virtually allows us to phase work appropriately and avoids creating a situation in which our teams and yours face heavy workloads on a tight timeline in order to meet milestones.



**Ongoing engagement with management**—Engaging with management is even more important while working remotely and includes the following touchpoints:

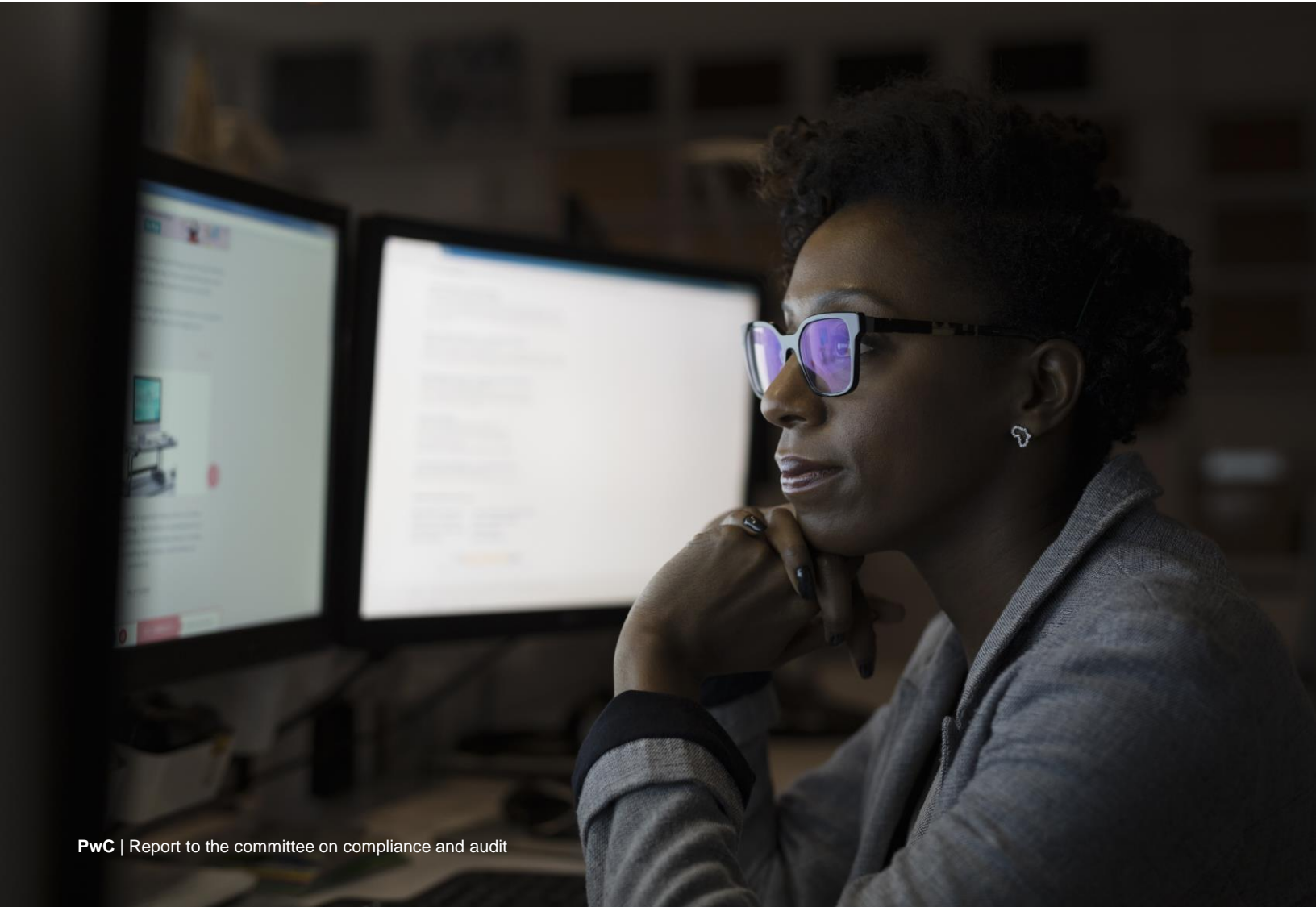
- Regular audit status updates.
- Escalation timing and protocols.
- Active involvement of management at various University components.



**Client commitment to the process**—Your team's engagement in audit support processes, documentation and evidence requirements is a key contributor to completing a quality audit on schedule. This includes the following:

- Preparation and planning.
- Prioritization and management of competing priorities.
- Internal audit support meetings
- Data access considerations while working remotely.
- Communication protocols.
- Continuity planning for risks and interdependencies in client audit support execution.

# Our approach



# Audit objective

## Our primary objective is to:

- Issue an opinion on the University of California's financial statements including the University retirement plans, and each of the five University Medical Centers, in accordance with generally accepted auditing standards (GAAS) and, as applicable, *Government Auditing Standards* (GAGAS) as of 6/30/2021 and for the year then ended.
- 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.



## Our audit deliverables:

- 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

# Audit objective

## PwC Services and related deliverables to the University

In conjunction with performing audit services for the University, we also provide certain other audit related and attest services. Refer to the listing 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.

### 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 for 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.

Note that the campus foundations and Fiat Lux Risk and Insurance Company ("Fiat Lux") 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. However, to the extent audit matters arise from those locations that warrant the attention of the Regents, we will ensure those matters are communicated.



# Risk assessment overview

## 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 risks identified based on our preliminary risk assessment process, together with our planned audit response.

Risk	Related assertion
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	Related assertion
Risk of fraud in revenue recognition - Uncollected portion of patient service revenue (patient accounts receivable)	Valuation
Planned audit response	
In response to the risk associated with the estimates and assumptions made related to the valuation of collectability for unpaid revenue, we evaluate each medical center location’s process and model utilized in order to design specific targeted procedures to address the assumptions that could have a material impact on the financial statements. Audit procedures considered include testing management’s model, performing historical cash collection look-back analysis, testing of cash collections subsequent to the end of the year, and detail testing of patient file records. Note, this risk is only considered to be significant (as defined above) for the stand alone financial statements of the University’s medical centers.	



# Risk assessment results

## Other areas of focus

In addition to the significant risks identified on page 8, 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 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 and include consideration of compliance requirements associated with COVID-19 relief funding, including the Higher Education Emergency Relief Fund and the Provider Relief Fund. 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

Entity/Business unit	Financial statement scoping
<b>Office of the President and Office of the Chief Investment Officer</b>	Audit procedures are performed as necessary at these locations in order to issue an opinion 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 University of California Retirement System (UCRS) audit and the audits of the campus foundations. For example, the investment work we perform at the Office of the Chief Investment Officer (OCIO) is tailored to be able to support the needs of these various standalone reports.
<b>Medical Centers and UCRS</b>	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.
<b>Campuses</b>	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.
<b>Foundations</b>	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.

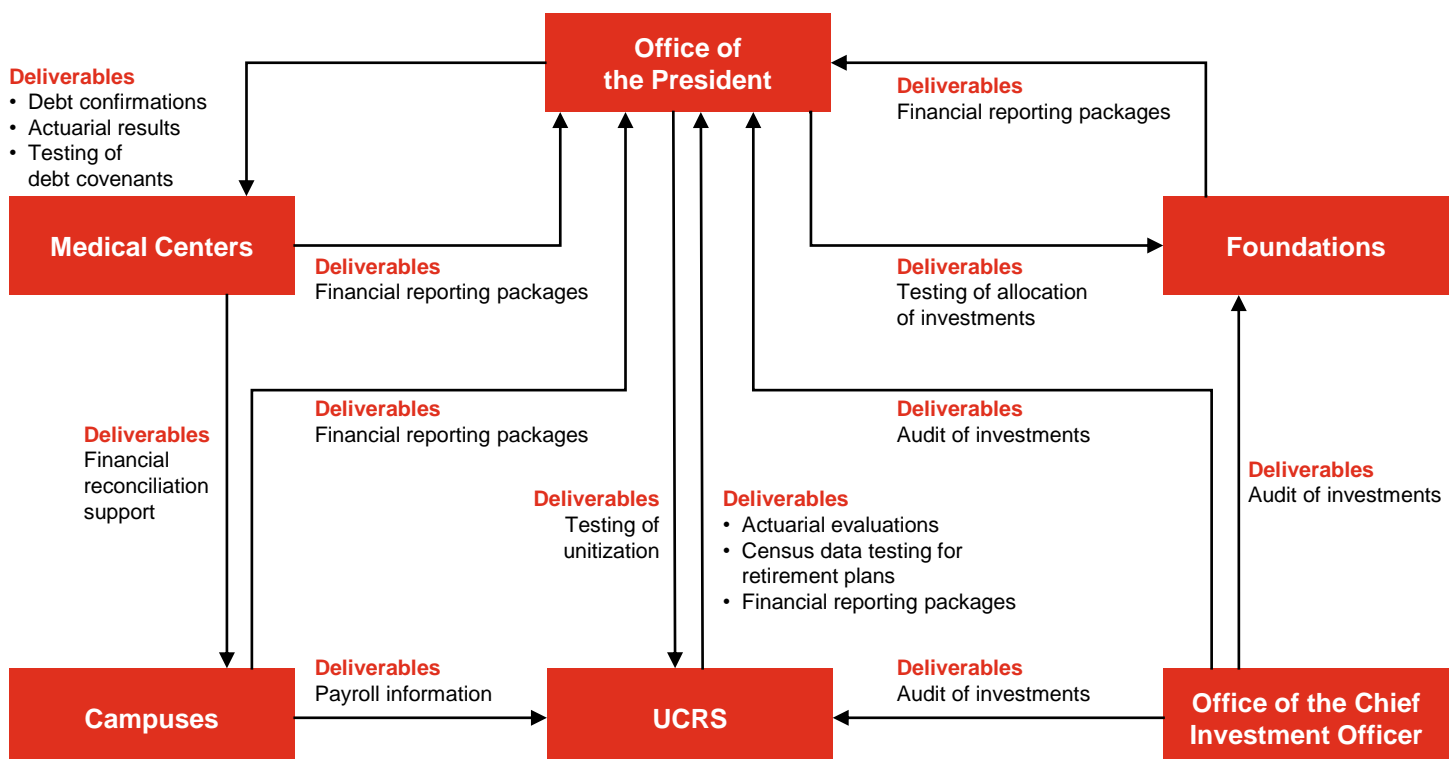
# Scoping

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.

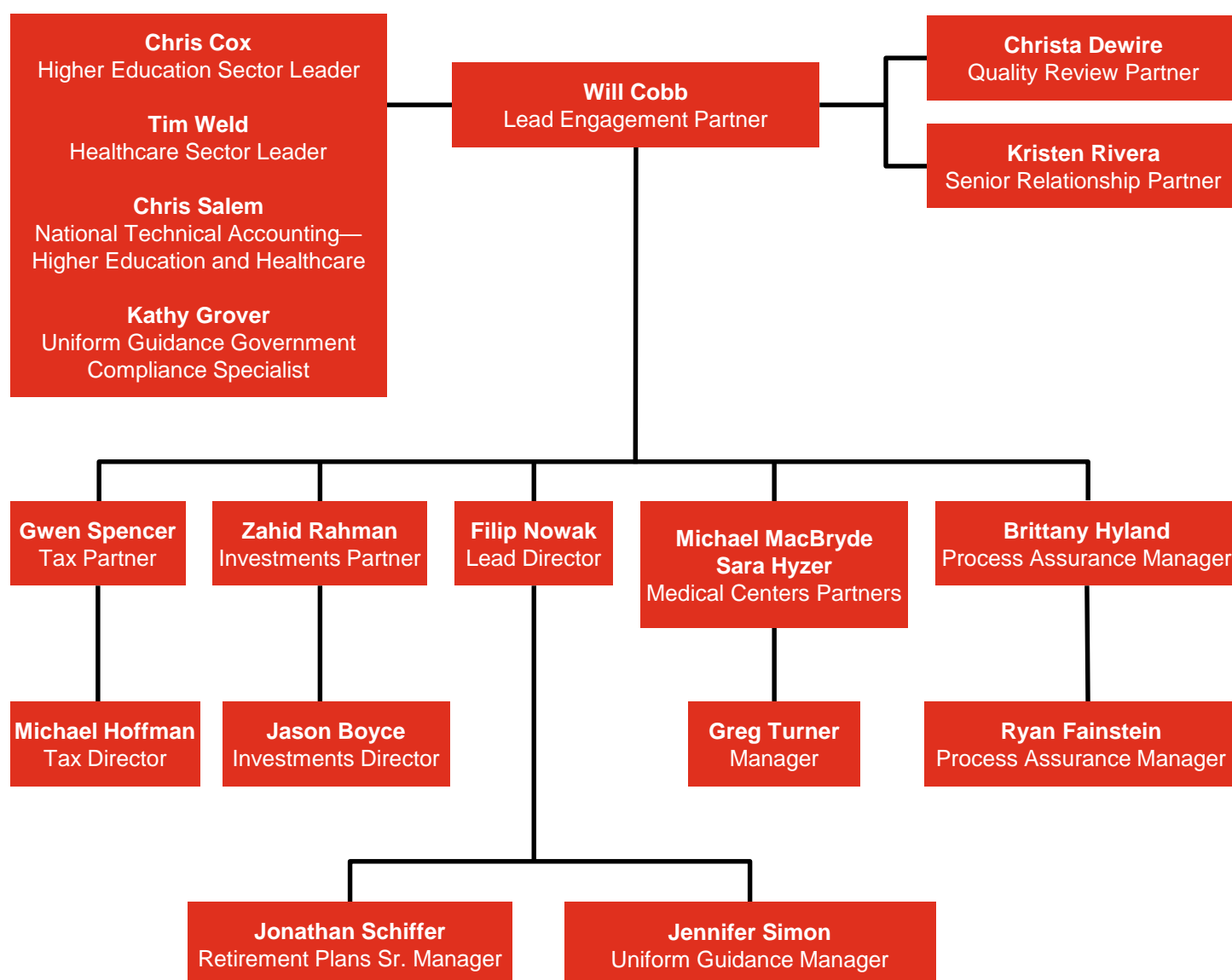
We have taken the following steps to ensure the overall quality of audit engagement:

- 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.








# Meet your audit 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
 <b>Financial services valuation</b>	Assistance with the evaluation of investments and related disclosures
 <b>Compensation and benefit plans</b>	Review actuarial assumptions to compensation programs and benefit plans
 <b>Health reimbursements</b>	Review third party account transactions subject to complex rules and interpretation
 <b>Information technology</b>	Review and testing of IT and application controls
 <b>Regulatory compliance</b>	Review the University's Uniform Guidance report and provide perspective on federal agencies' monitoring and expectations of award recipients

# Timeline and communication plan

## Planning

Meet with management to understand the University's activities and assess risk; and obtain update of operating plans and activities.

Assess significant audit risks and materiality.

Complete preliminary scoping of accounts, processes and locations.

Meet with the Committee to discuss service plan.

Coordinate with PwC engagement teams and issue instructions for the audits of the University, Medical Center, and retirement plan financial statements as well as Uniform Guidance testing procedures.

March-April

May–September

October

November–February

## Completion

Issue financial statement audit opinions

Meet with the Committee to communicate results of year-end audit and internal control recommendations.

## Execution

Ongoing consultations on significant issues and developments.

Perform understanding and testing of internal controls.

Evaluate nature, timing and extent of substantive procedures based on controls testing.

Perform interim and year end audit procedures for financial statement audits and initiate testing for Uniform Guidance audits.

## Other reporting

NCAA Agreed-upon procedures for UCLA and Berkeley

Complete remainder of testing and issue report on Uniform Guidance compliance

Debrief on prior year financial statement audit and initiate preparations for next year's audit

# Other required communications



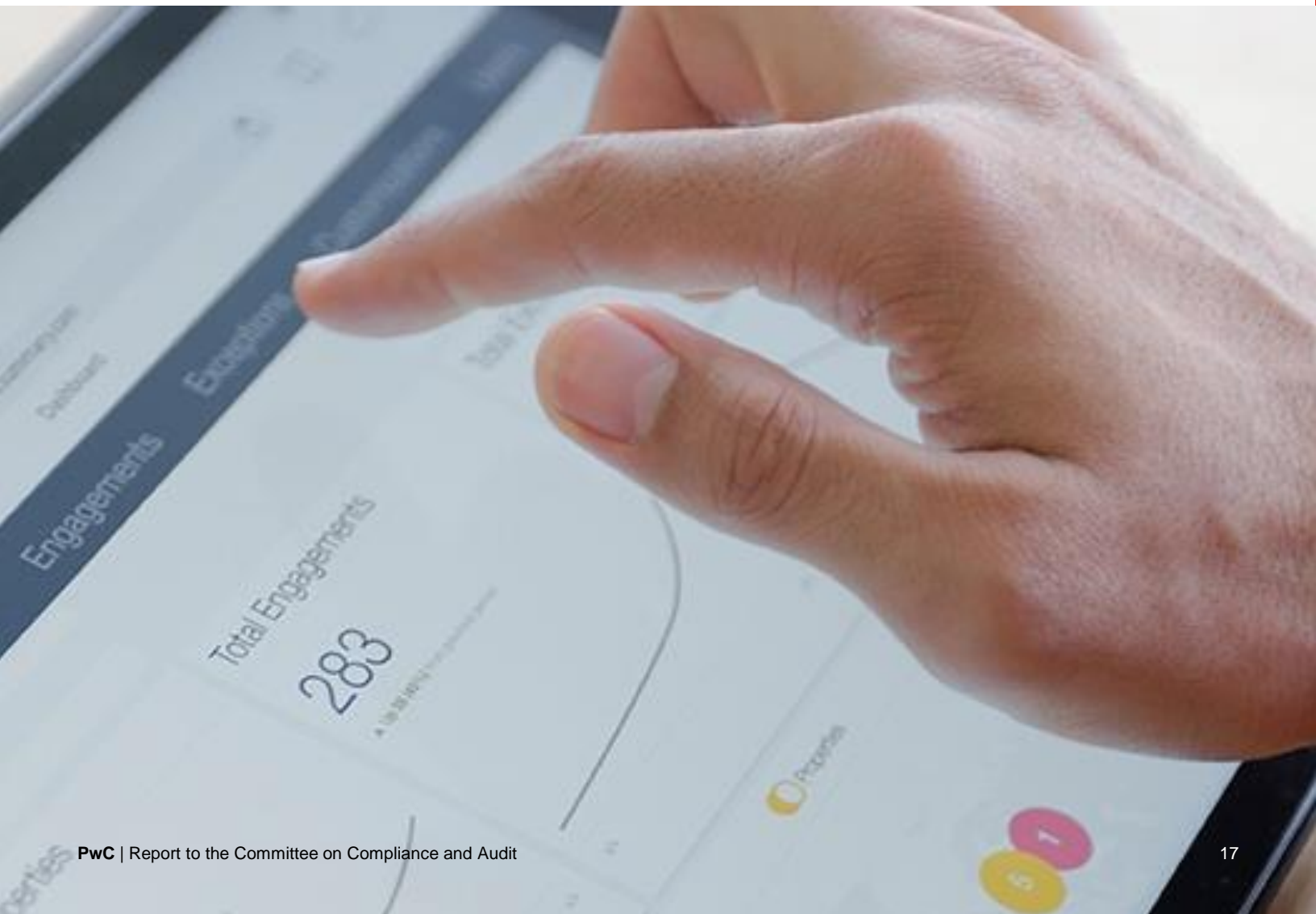


# Other required communications

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.</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>
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>
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.</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 2021. 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 2021

Healthcare organizations and their front-line clinical workforce have absorbed the brunt of the pandemic and the emotional toll of witnessing the deaths of hundreds of thousands who could not have loved ones present. Physicians are now dealing with sicker patients because of delayed care during the pandemic. The healthcare system in 2021 also faces a tremendous challenge in responding to the nation's mental health crisis, as 32% of US consumers surveyed by HRI said they had experienced anxiety or depression as a result of the pandemic.



**Read more:** <https://www.pwc.com/us/en/industries/health-industries/assets/pwc-us-health-top-health-issues-2021.pdf>

# Thank you

[pwc.com](https://www.pwc.com)