

The Regents of the University of California

COMPLIANCE AND AUDIT COMMITTEE

March 16, 2022

The Compliance and Audit Committee met on the above date at UCSF-Mission Bay Conference Center, 1675 Owens Street, San Francisco and by teleconference meeting conducted in accordance with California Government Code §§ 11133.

Members Present: Regents Anguiano, Cohen, Elliott, Makarechian, Park, Pérez, Sures, and Zaragoza; Advisory members Horwitz and Pouchot; Chancellors Christ, Gillman, Hawgood, Khosla, and Yang; Staff Advisor Lakireddy; Expert Financial Advisor Schini

In attendance: Regent Drake, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Bustamante, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President Byington, Executive Vice President and Chief Operating Officer Nava, Vice President Lloyd, and Recording Secretary Johns

The meeting convened at 9:55 a.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 November 17, 2021 were approved, Regents Anguiano, Cohen, Elliott, Makarechian, Park, Pérez, Sures, and Zaragoza voting “aye.”¹

2. INTERNAL AUDIT ACTIVITIES REPORT

[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 introduced this item. Systemwide Deputy Audit Officer Matthew Hicks began with an update on the status of Management Corrective Actions (MCAs). Any MCAs over 300 days old from the date of an audit report are regularly reported to the Chair and Vice Chair of the Compliance and Audit Committee. The number of MCAs over 300 days old had remained at a relatively low level, ranging from eight to 27, since the implementation of more robust escalation protocols in 2018. It appeared that the COVID-19 pandemic had not had a significant impact on management’s ability to implement corrective actions in a timely manner.

The background materials also included updates on systemwide audits. These are audits identified by the Office of Ethics, Compliance and Audit Services (ECAS) and carried out

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

by campus auditors who use a common approach. The results are summarized and reported by ECAS. ECAS had completed the fifth annual audit of the University's Fair Wage/Fair Work Plan, assessing UC's suppliers' compliance with the Plan's requirements. The purpose of this audit was to review contracts executed in the last year to ensure that applicable contracts contain the required Fair Wage/Fair Work provision, determine whether procurement units are reviewing and monitoring supplier compliance with the annual audit certification requirement, and validate that suppliers complied with the annual audit requirements. Overall, compliance rates had increased compared to the previous year. For campus procurement, the compliance rate increased from 87 percent to 88 percent. For medical center procurement, the rate increased from 86 percent to 97 percent, while for real estate, the rate increased from 76 percent to 87 percent. Instances of non-compliance were found to be isolated, in a handful of locations. At those locations, ECAS worked with management to develop corrective action plans to improve processes for tracking, monitoring, and follow-up activities to improve compliance.

Three additional systemwide audits were currently in progress. ECAS had initiated an audit of police complaint processes in response to a set of recommendations by the Presidential Task Force on Universitywide Policing. The purpose of this audit was to verify that complaints and use of force reports are being handled in accordance with applicable requirements. Mr. Hicks anticipated that this audit would be completed in the summer and results would be shared with the Committee. For the second year in a row, ECAS was performing a systemwide retrospective review of donations to UC campuses to identify admissions decisions that could have been influenced by these donations. This year, ECAS expanded the scope of this review to identify admissions decisions that could have been influenced by an applicant's family relationships to a member of the Senior Management Group. ECAS expected to complete this year's review by the end of April. As in prior years, the University was engaged in audits of executive compensation controls and reporting. These reviews are completed once every three years by each UC location on a rolling basis.

Systemwide Cybersecurity Audit Director Gregory Loge shared results from a recent systemwide audit of the University's Electronic Information Security policy (BFB-IS-3). This systemwide audit was the first such review since the policy went into effect in 2018. The audit was performed in coordination with the internal audit department at each location and covered all UC campuses and UC Health locations. The audit focused on the high-level, foundational elements of the policy to determine the status of implementation at each location. These foundational elements included determining if senior leadership had been assigned and understood their role in information security as defined by policy, and a review of the key elements of an information security program required by policy.

From this review, ECAS determined the following. Most locations were in the early planning or implementing stages of a program to implement policy IS-3. At most locations, senior leadership did not have assigned information security roles as required by policy. For example, leaders such as deans or vice chancellors have a role to play in cyber risk oversight and decision-making, yet these individuals in most locations did not have these responsibilities assigned and were unaware of their duties required under the policy. In

addition, almost all locations had no program to train or give guidance to these individuals in performing their duties under IS-3. Finally, ECAS found that almost all locations were without a documented information security program as required by policy. ECAS worked with management to develop corrective action plans to address the identified issues, and each location was currently working to address these gaps. ECAS would be following up on the implementation of these action items through its normal process and would escalate any issues as necessary.

Mr. Loge outlined some other current projects. ECAS recently began a review of the UC Health data warehouse. ECAS would be reviewing security controls and performing penetration testing, using tools and techniques similar to those used by attackers to identify weaknesses in UC systems, as well as reviewing other key information security controls in place to protect this large store of health data. ECAS was also completing audits of research areas at several of the larger UC campuses. These audits were focused on reviewing foundational controls for ensuring the security of research data and would include penetration testing of a sample of research areas across UC. ECAS was just now beginning a review of cyber resiliency at UC Health. While most audit work had been focused on identifying weaknesses proactively, to help prevent breaches, this audit recognized that not all cyber incidents were preventable and would focus on how well UC Health was prepared to respond to and recover from a major cyber attack. The better prepared UC was to respond, recover, and resume operations, the more UC could minimize the impact of a cyber attack.

Regent Park asked what the Committee could expect regarding full implementation of the Electronic Information Security policy at the locations. She asked if all locations were struggling in a similar way with the implementation, or if this was the pace at which one would expect implementation to proceed. Mr. Loge responded that the policy was a comprehensive document, including standards, technical controls integrated into those standards, and the overall structure of information security management and oversight. In this first review, ECAS' focus was on first steps, high-level roles and responsibilities, the question of whether those individuals had been identified as defined in policy, whether they had been informed of their responsibilities, and supported in a program that would be built out to the distributed information technology units across the location. Most locations were still in the process of building out this program. In a state of full implementation, the program would extend across UC, and each unit would have individual responsibilities for ensuring its compliance with policy.

Regent Park asked if the locations were moving with all deliberate speed and if their progress was reasonable in the context of UC's current cyber security concerns. Mr. Loge responded that the policy had been in effect since 2018. Every location had been making efforts to implement a program in compliance with the policy. Not until the last year had there been much movement on implementation. This might be partly due to the pandemic. He opined that UC was a little behind where it should be in the implementation process, but there were reasons for this. Regent Park commented that this should be a high priority. There might be reasons for delay and issues of communication or hiring the necessary

talent, but it was a matter of concern that UC was not where it should be in implementing this policy.

Regent Pérez stated that there needed to be a greater sense of urgency about this matter across UC. The gap between UC policy and institutional culture was a recurrent challenge. There was still much work to be done in order to move from policy to implementation. There should be heightened concern about cyber attacks in the world today.

Regent Makarechian asked why it had taken four years to implement this policy. Mr. Bustamante responded that this question could best be addressed to the campuses, which were implementing the policy. ECAS could discuss shortcomings it had identified in its audit.

Regent Makarechian asked if the policy was too vague, not specific enough, or if the steps to be taken were not described. Mr. Bustamante responded that he believed that the policy could be implemented. There had been a lag from 2018 to the present. He was aware of nothing that would make the policy confusing or non-implementable. He did not have information about logistics or funding on the campuses that might affect implementation.

Regent Makarechian emphasized the Regents' need to know about the specific problems for this policy implementation. ECAS should inform the Regents about these problems and the steps to be taken. Mr. Bustamante responded that ECAS would follow its process for MCAs in this as in other audits.

Regent Makarechian asked if this was a problem at every location, or if some campuses were ahead of others. Mr. Loge responded that most campuses were in the early stages of implementation. Some were a little further along than others. One of the challenges was institutional culture, educating non-information technology campus leadership about their roles, responsibilities, oversight, and engagement in cyber risk matters. This was a shift in the institutional culture and would be a positive outcome of this audit. This was a significant challenge at UC, which had a large, decentralized information technology organization within a large university system.

Regent Makarechian asked that representatives of UC information technology personnel responsible for implementing the policy report on the implementation status and problems with implementation at a future meeting. Committee Chair Elliott agreed that this was desirable. A presentation would be arranged.

Chancellor Hawgood stated that he was uncomfortable with this presentation. The information in the presentation did not reflect his own lived experience. UCSF took policy seriously and had come a long way in recognizing cyber security as a high priority, and this was likely true on the other campuses as well. With respect to a sense of urgency, when it became clear what was happening in Europe several weeks prior, Chancellor Hawgood asked his team to develop a contingency plan, within a week, for draconian steps the campus might take if there were evidence of increased cyber attack activity in the U.S. The plan had ten concrete steps that could be executed with Chancellor Hawgood's approval,

immediately. The Regents should not have the sense that the campuses were dragging their feet on this issue, that there were impenetrable problems of institutional culture, or that the chancellors were not taking this seriously. This had not been Chancellor Hawgood's lived experience.

Chancellor Gillman expressed agreement with Chancellor Hawgood's statement. Cyber security had been a high-priority risk issue for Chancellor Gillman for years. The amount of time and energy UC Irvine was spending to implement the policy and to ensure that the entire campus understands the urgency of this matter was extraordinary. Chancellor Gillman had earlier believed that the biggest challenge to his campus would be an earthquake, but these types of attacks represented a greater potential existential crisis. The importance of cyber security was emphasized in communications with every UCI school. Chancellor Gillman conducted tabletop exercises with his cabinet, with the help of third-party advisors, running through scenarios and reviewing protocols. One aspect of this matter was access, making it difficult for bad actors to breach the University's systems. There was a protocol for this, including steps like removing old email systems that could not be protected. The campus had been working on that step for years and had resolved the issue. Another aspect was data security, which might pertain to data on a laptop computer, and ensuring that faculty can easily back up and secure data, even if a laptop is compromised, or to massive data sets on servers that require other types of solutions. For the last year, UCI information technology staff had been working on a set of protocols to ensure that members of the campus community would be able to comply with the new requirements for securing data, whatever the type of data. Chancellor Gillman underscored that this was a matter of tremendous urgency.

Committee Chair Elliott commented that there appeared to be a disjunction between the chancellors' statements and the presentation by ECAS. No campus was on schedule or ahead of the implementation schedule. This could be further discussed at a future meeting.

Regent Pérez concluded that the value of a good audit was in finding gaps. No one was questioning the commitment of the chancellors to cyber security on their campuses. Feedback was important in finding and addressing gaps in an area of high risk.

3. **APPROVAL OF THE EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2022**

The President of the University recommended that the Compliance and Audit Committee recommend to the Regents that the PricewaterhouseCoopers (PwC) external audit plan for the University for the year ending June 30, 2022, 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.]

Executive Vice President and Chief Financial Officer Brostrom introduced the new Associate Vice President and Systemwide Controller Barbara Cevallos. Ms. Cevallos

related that she had joined the Office of the President (UCOP) in December 2021 and came from the University of Massachusetts, where she worked in a similar role.

PricewaterhouseCoopers (PwC) representative Will Cobb confirmed that the scope of the fiscal year 2022 financial statement audit would be consistent with that for the prior year and would include audits of the University, each of the five medical centers individually, and the UC Retirement System.

Regent Makarechian asked if PwC had performed any consulting for the University. Mr. Brostrom responded in the negative. Details of the fees in the background materials indicated zero percent for consulting.

Regent Makarechian asked how PwC evaluated potential conflicts of interest and independence. He asked if PwC reviewed all UC affiliates to ensure that it was entirely independent. Mr. Cobb responded that PwC evaluates each of the services that it performs, obtains an understanding of all the UC affiliates, and evaluates its independence with respect to these affiliates. This was a comprehensive evaluation throughout the UC portfolio.

Regent Makarechian asked who provided PwC with the list of affiliates. Mr. Cobb responded that PwC receives this from UCOP and the Systemwide Controller's office.

Regent Makarechian asked if PwC believed it had complete and accurate information for all affiliates, including any potential conflicts of interest, such as service on outside boards. Mr. Cobb responded that PwC works through a framework with UCOP on the types of information PwC needs and that is relevant to its evaluation of independence. There had never been any issues with respect to the completeness of that information. PwC's evaluation of the completeness of that information includes a review of all minutes of various committees and review to ensure that PwC has an understanding of new affiliations, acquisitions, and new officers or members of executive management. There had been no issues of concern associated with those procedures.

Regent Cohen referred to a note in the background materials explaining that the campus foundations and Fiat Lux, UC's captive insurance company, have separate audits of their financial statements, and that, to the extent that audit matters arise from these locations that warrant the attention of the Regents, PwC would ensure that these matters are communicated. He asked if there had been any matters concerning these entities over the last few years that had caught PwC's attention. Mr. Cobb confirmed that PwC provides required communications with respect to the boards for these entities, which are part of the entire University reporting entity. PwC would be obligated to report to the Regents any significant issues regarding these entities that would affect the audit of the University. There had been no such items in recent years.

Regent Cohen asked about the impact of a new accounting standard, Governmental Accounting Standards Board (GASB) Statement No. 87. Mr. Brostrom explained that GASB 87 concerned capital leases and how they are treated. He did not believe that this

standard would have a significant impact on debt capacity. The University already treated capital leases as part of the calculations for individual campuses. Ms. Cevallos added that the new standard would not affect evaluations by rating agencies. Rating agencies understood this standard as well and took it into account in evaluating the University's debt capacity. The standard would require changes to some of the footnotes in UC's financial statements as well as a restatement of the prior year financial statements. Mr. Cobb concurred and observed that, broadly, the impact was that operating leases were moved onto the balance sheet. From the perspective of debt reporting, analysts had already been calculating this to fully reflect the cost of debt.

Regent Makarechian asked if PwC uses different materiality thresholds for each medical center. Mr. Cobb responded in the affirmative. PwC issues an audit opinion for each medical center individually, with its own materiality threshold, based on the financial statements of that medical center.

Regent Makarechian asked if those thresholds were \$25,000 or based on revenue. Mr. Cobb responded that \$25,000 was a federal reporting amount for Uniform Guidance, for federal grants and contracts compliance. PwC establishes materiality for the medical centers based on the total revenues of the medical centers. PwC's reporting threshold for audit adjustments is a very low amount compared to revenue.

Regent Makarechian asked about the work PwC performs with respect to the Office of the Chief Investment Officer and what changes there had been. Mr. Cobb responded that the UC investment portfolios had a significant impact on PwC's audit of the University, the medical centers, and the Retirement System. PwC had a centralized asset management team for auditing of investment pools. Within the investment pools, there is a marketable portfolio and a non-marketable portfolio. The audit procedures for each of those were very different, based on risk. PwC was confirming the existence of these investments, testing the prices of these investments, and evaluating the financial statement audits that are received separately for private funds. PwC evaluates the accuracy of private funds as they are recorded and as audited values, to confirm that these funds do a good job of reporting on audited values, since the University's fiscal year ends on June 30, while most of the private funds operate with a calendar year end. This was a significant amount of the test work performed by PwC as part of the overall audit of the University in the Office of the Chief Investment Officer.

Regent Makarechian asked if PwC performs any audits or spot checks of private equity, hedge funds, or mark to market positions. Mr. Cobb responded that PwC evaluates the controls in place in the Office of the Chief Investment Officer for due diligence and for mark to market adjustments performed. PwC assesses the mark to market adjustments after the individual private equity investments are audited. This was a significant portion of PwC's work.

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

The meeting adjourned at 10:45 a.m.

Attest:

Secretary and Chief of Staff

Tomorrow's audit, today

Report to the Members of the Committee on Compliance and Audit

FY 2022 audit plan

Regents of the University of California

March 16, 2022



Bringing you tomorrow's audit, today

February 18, 2022

Dear Members of the Committee on Compliance and Audit:

We never forget our responsibility to deliver quality in our audits and help to build trust in the marketplace. This quality-first motivated mindset drives our approach to the University of California's audit. We're excited to share how we're reimagining your audit experience through an approach that is people-led and tech-enabled.

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.

Discussion of our audit plan helps to ensure our PwC engagement team members hear what matters to you and together we consider the audit 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 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 prior to our meeting, please do not hesitate to contact me at will.cobb@pwc.com.

Very truly yours,



Will Cobb
Engagement Partner

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**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



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Appendix

Trending topics - GASB 87: Leases

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



Our approach



Audit objectives

Our primary objectives are to:

- Issue opinions 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 June 30, 2022 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 objectives

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. See 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 defined benefit and defined contribution plans of University of California Retirement System (UCRS).
- 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, as applicable (Regents Letter).
- Reports to the campus Chancellors on control and process deficiencies and observations, as applicable (Chancellor Letters).

Other services

- 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.

Our shared responsibility for independence

Compliance with the auditor independence rules continues to be a shared responsibility between a company's management and its independent auditor.

This shared responsibility includes monitoring certain areas to satisfy, as applicable, the independence requirements of the AICPA. For example:

- It is important for management to notify the auditor in advance of the effective date, of changes in circumstances that may affect the population of potential affiliates, as well as changes leading to new officers, or Regents not previously identified.
- If PwC is providing impermissible non-audit services to an entity that is a prospective new affiliate pursuant to a merger or acquisition, such services will need to be identified and evaluated prior to the effective date of the transaction and actions will most likely be needed to cease or restructure the impermissible services.

We need to work together with management proactively to avoid relationships that might jeopardize our independence - that is our view and the expectation of our stakeholders.

The following PwC and management working practices have been discussed with management to support this communication on a timely basis such that PwC has sufficient time to complete the necessary independence assessment.

PwC

Frequent inquiries with management, on-going monitoring of affiliate listing and Regent website,

Management

Timely communication of any new officers, Regents or affiliates.

Inside our independence processes:

Independence is the cornerstone of our profession. We're investing in our people and technology to ensure compliance with these rules through the following:

- Required independence training for all partners and staff
- Global tracking of Authorizations for Services (AFS) through Salesforce.
- Global use of an independence monitoring system for personal affiliations used by all partners and staff
- Independence confirmation system that automatically generates and sends confirmations to partners and staff at the commencement of their work on an engagement.

In signing the engagement letter, the University agrees to inform PwC periodically about the identity of each affiliate and to **notify PwC in advance regarding any expected addition or removal of an affiliate.**

Risk assessment results

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.

Significant risk (*pervasive*)

Management override of controls

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 numerous individuals throughout the University. This pervasive inherent risk applies to all of our University financial statement audits.

Medical Centers Significant risk (*valuation*)

Risk of fraud in revenue recognition - Uncollected portion of patient service revenue (patient accounts receivable)

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 after the end of the year, and detail testing of patient file records. Note, this risk is 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 the previous page, 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 (defined benefit plan 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.
- Valuation of alternative investments.
- Capitalization of fixed assets, particularly related to construction activity.
- Notes and bonds payable 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 87, *Leases*, (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 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 overview

Entity/Business unit

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 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 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.

Medical Centers and UCRS

As described throughout this document, we perform audits of the financial statements for each of the five University medical centers and the University retirement system, which consists of multiple benefit plans.

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 aggregate 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.

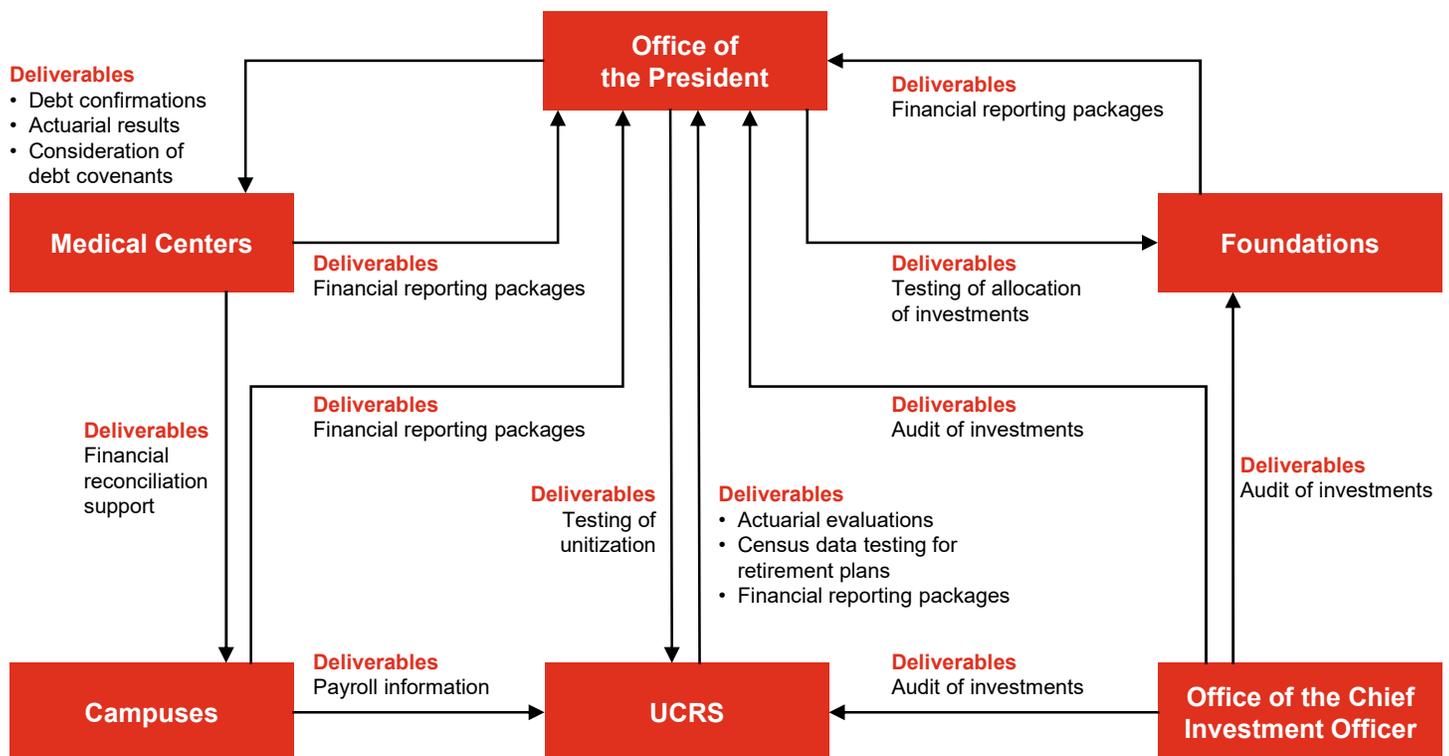
Scoping results

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:

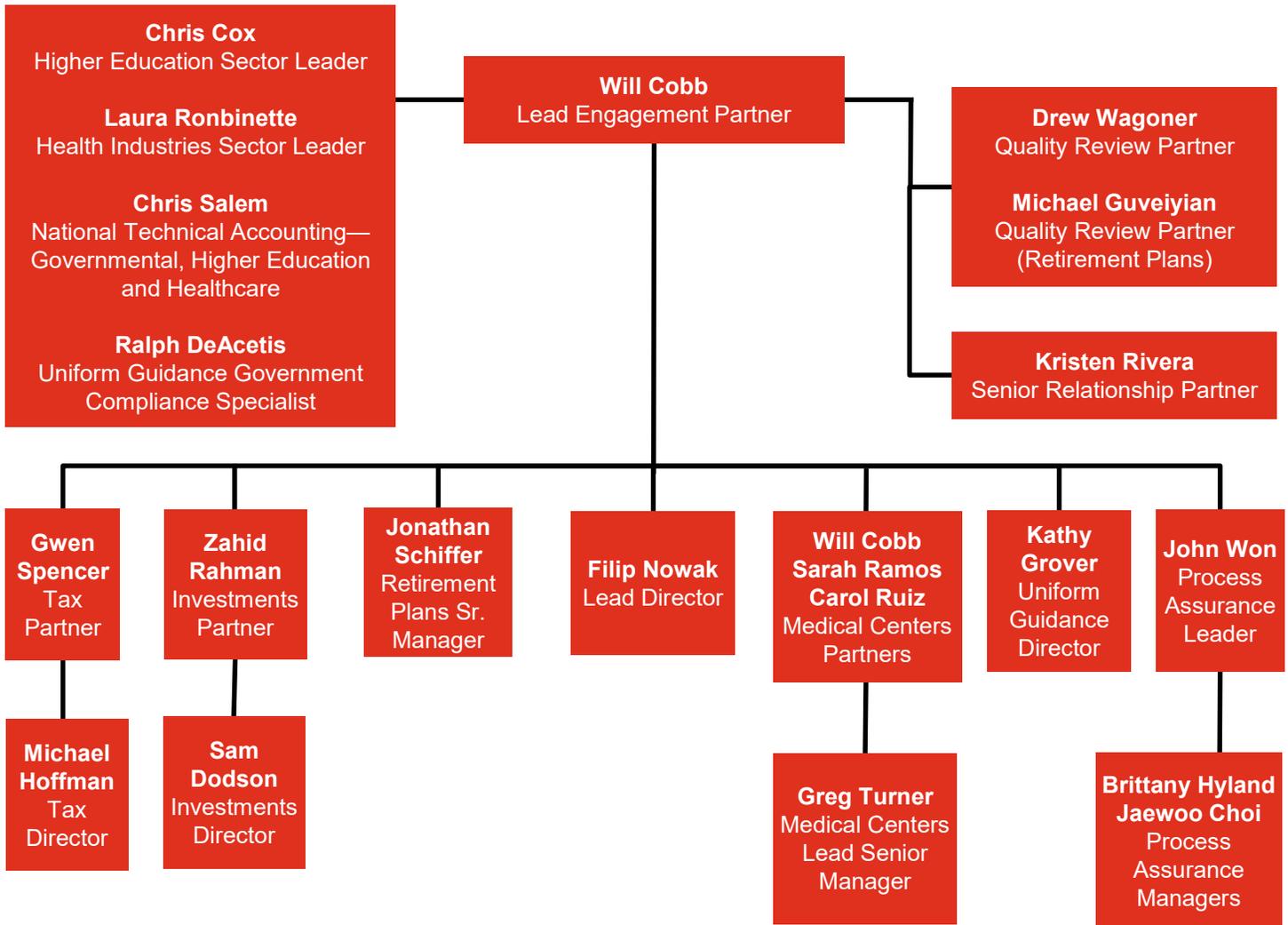
- Prepared and communicated a centrally determined audit scope and plan.
- Established a framework for continuous communications throughout our engagement teams.
- Adherence to engagement timelines to achieve your reporting objectives.

The multi-location engagement team is aligned to the University's geographical organization and mirrors the management control structure the University. 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.



Your audit team

Inspired. Inspiring. People you can count on to make a difference.



The people + tech in our foundation

Centers of Excellence

Centralizing work, standardizing procedures, and leveraging specialized skill sets

Acceleration Centers

Diverse, global talent pools help deliver quality, client service excellence and operational efficiency

People-led innovation

Equipping our people with the upskilling and tools to personalize the audit experience

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—the valuation of pension and postemployment benefit obligations, valuation of certain investments, and third-party payer 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
 Financial services valuation	Assistance with valuation of investments and related disclosures
 Compensation and benefit plans	Review actuarial assumptions relating to valuation of benefit plan obligations
 Health reimbursements	Review third party account transactions subject to complex rules and interpretation
 Information technology	Assessment of design and implementation of IT and application controls
 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

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 centers, and retirement plan financial statements as well as Uniform Guidance testing procedures.

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.

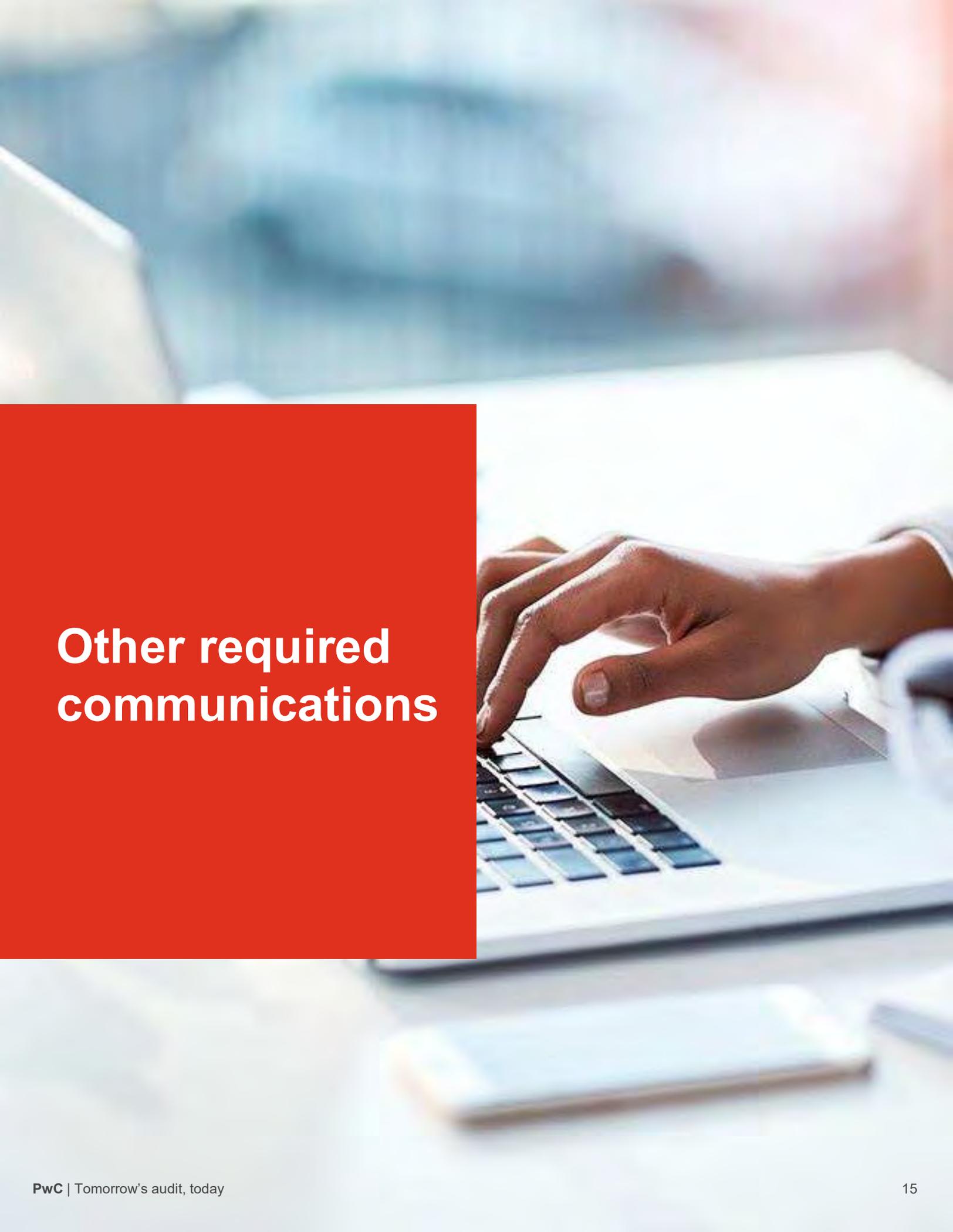
Other reporting

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

Our time-tested issues resolution process:

- Issues don't wait. We welcome your calls anytime.
- Engagement Leader acts as the voice of the firm on all accounting matters, with access to subject matter specialists
- Regular communications, open dialogue, and transparency throughout the process



Other required communications

Other required communications

Matter to Report	Comments
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>
Other Information included in the Annual Report	<p>Effective for AICPA-standards audits for entities with fiscal years ending on or after December 15, 2021, AICPA Auditing Standards Board Statement on Auditing Standards No. 137 (SAS 137) requires that we communicate to you our responsibility with respect to other information, the procedures performed related to the other information, and the results.</p> <p>These standards require that we read other information, whether financial or nonfinancial, included in the University's annual report and consider whether a material inconsistency exists between the other information and the financial statements and to remain alert for indications that:</p> <ul style="list-style-type: none"> •A material inconsistency exists between the other information and the auditor's knowledge obtained in the audit, and/or •A material misstatement of fact exists or the other information is otherwise misleading. <p>We assume no obligation to perform procedures to corroborate such other information as part of our audit. Other information is included as part of the annual report. We will be required to obtain written acknowledgment from management as to the document which comprise the annual report and the planned manner and timing of issuance of these documents.</p>
Obtain information relevant to the audit	<p>We will inquire of the Members of the Committee about whether it is aware of matters relevant to the audit and about the risks of material misstatement.</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>

Appendices



Trending topics

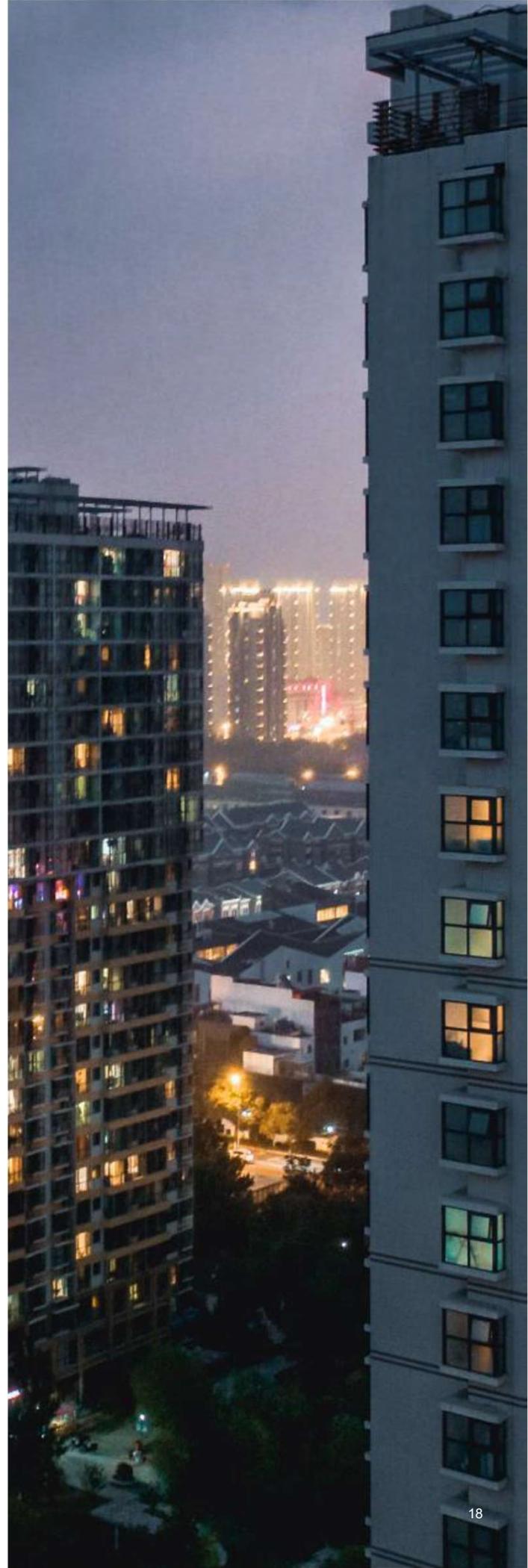
GASB 87: Leases

GASB Statement No. 87, **Leases**, is applicable and will be implemented by the University in the current fiscal year 2022. The requirements of this Statement apply to financial statements of all state and local governments.

One of the key provisions of the new guidance is that previously, operating leases were not included on the statement of net position. The standard requires recognition of certain related assets and liabilities for many of those leases that were previously were classified as operating leases for both the lessee and the lessor.

The guidance also creates a new category known as short term leases – leases with a term of 12 months or less. Lessees and lessors will recognize short-term lease payments as outflows of resources or inflows of resources on the statement of net position.

This standard is intended to enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements.



Thank you.

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