

The Regents of the University of California

COMPLIANCE AND AUDIT COMMITTEE

March 16, 2023

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

Members Present: Regents Anguiano, Blas Pedral, Cohen, Matosantos, Pérez, Sherman, and Sures; Ex officio member Leib; Advisory member Cochran; Chancellors Christ, Gillman, Hawgood, Khosla, May, and Yang; Staff Advisor Mackness

In attendance: Regent-designate Ellis, Staff Advisor Lakireddy, Secretary and Chief of Staff Lyall, General Counsel Robinson, Chief Compliance and Audit Officer Bustamante, Executive Vice President Byington, Executive Vice President and Chief Operating Officer Nava, Chancellor Larive, and Recording Secretary Johns

The meeting convened at 11:23 a.m. with Committee Chair Sures presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of November 16, 2022 were approved, Regents Anguiano, Blas Pedral, Cohen, Leib, Matosantos, Pérez, Sherman, and Sures voting “aye.”¹

2. APPROVAL OF THE EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2023

The President of the University recommended that the PricewaterhouseCoopers (PwC) external audit plan for the University for the year ending June 30, 2023, as shown on page 5 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 Sures asked if there was anything in the PricewaterhouseCoopers (PwC) audit plan that might be an issue for the Board and should be brought to the Regents’ attention, or if the audit plan reflected business as usual. Associate Vice President and Systemwide Controller Barbara Cevallos and PwC representative Will Cobb responded that the audit plan was business as usual; there were no special issues.

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

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Anguiano, Blas Pedral, Cohen, Leib, Pérez, Sherman, and Sures voting "aye."

The meeting adjourned at 11:25 a.m.

Attest:

Secretary and Chief of Staff

FY2023 audit plan

Tomorrow's audit, today

Report to the members of the

Committee on Compliance and Audit

Regents of the University of California

March 15, 2023



Bringing you tomorrow's audit, today

February 9, 2023

Dear Members of the Committee on Compliance and Audit:


An audit is fundamentally about trust — your trust in our quality, our people, our approach and our technology which leads to a cost-effective and efficient audit. It is about having the confidence of a quality, risk-based audit that garners the respect of the capital markets. This quality-first motivated mindset drives our approach to your audit. We're excited to share how we're reimagining your audit experience through Tomorrow's audit, today — our new equation of people and technology.

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.

We are excited to bring you Tomorrow's audit, today. Thank you for your trust in us as your auditors. 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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Tomorrow's audit, today
The new equation of people + tech

People

Experienced, digitally
upskilled professionals



Technology

End-to-end digital audit



What you experience

Trust

in a quality, tailored audit

Insights

into your business

Efficiency

for you and us

Driven by **authentic relationships**

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This report and the information that it contains is intended solely for the information and use of the Committee on Compliance and Audit 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:

- Perform audits in accordance with auditing standards generally accepted in the United States of America and, as applicable, Government Auditing Standards (GAGAS), to obtain reasonable assurance the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and are free from material misstatement whether caused by error or fraud,
- Render opinions on the financial statements as of June 30, 2023 and for the year then ending, and
- Perform an audit of the University's compliance with federal award requirements in accordance with OMB Uniform Guidance.

Our audits do not relieve management of its responsibilities with regard to the financial statements.

An audit of financial statements includes obtaining an understanding of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting.

Our audit deliverables

- Financial statements of the University, the aggregate discretely presented component units and the aggregate remaining fund information
- Each of the five individual Medical Centers' financial statements
- University of California Retirement System financial statements, including the University defined benefit retirement plans and University retirement savings program (UCRS)
- University of California Retirement Plan's Schedule of Cash Contributions
- Report on our tests of the University's compliance with laws, regulations, and provisions of contracts and grant agreements and on our consideration of its internal control over financial reporting
- Report on the University's compliance with requirements applicable to each major federal program and on our consideration of its internal control over compliance Reports on federal awards in accordance with OMB Uniform Guidance

Other services

- Review of the Form 990-T of the Regents of the University of California and University of California Retirement Plan
- Procedures in connection with periodic bond offerings

Note that the campus foundations and Fiat Lux Risk and Insurance Company ("Fiat Lux") have separate audits of their financial statements and the auditors reporting on those organizations are directed to their respective audit committees. Accordingly, this Audit 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 Committee, 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 PwC 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, directors, or beneficial owners 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.
- If a PwC partner or staff member is seeking or discussing potential employment with an audit client, this can have independence implications such that the individual would have to be removed from the engagement if providing services to the client.

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.

Actions	PwC	Management
Frequent inquiries with management	X	
Ongoing monitoring of affiliate listing and Regents website	X	
Timely communication of any new officers, Regents or affiliates		X

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/beneficial owner 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 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. This significant risk (as defined above) applies to the stand-alone financial statements of each of the University’s medical centers, but not to the University’s financial statements taken as a whole.

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.
- Adoption of new accounting pronouncement, GASB Statement No. 96 "*Subscription-Based Information Technology Arrangements*".

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 with 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. 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



We identify significant accounts and disclosures and relevant assertions considering quantitative and qualitative factors, based on whether there is a reasonable possibility the account could contain a misstatement that, individually or when aggregated with others, could have a material effect on the financial statements.

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.

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.

Scoping results

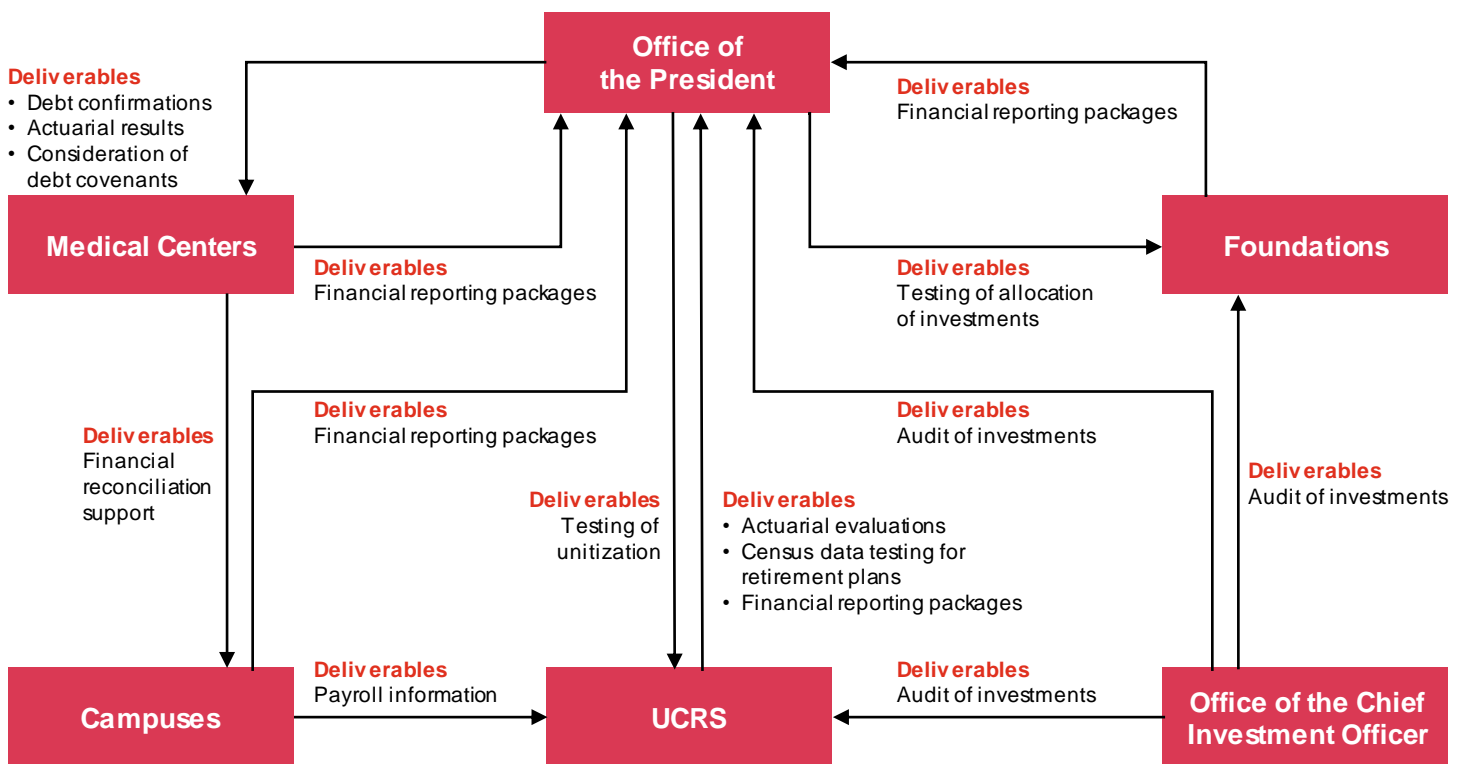


PwC has adopted a consistent approach for our audit procedures at all University and University-related entities. We have developed standardized reporting templates and common audit programs and approaches to achieve consistency and effectiveness. As a result, our reporting structure allows for local 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:

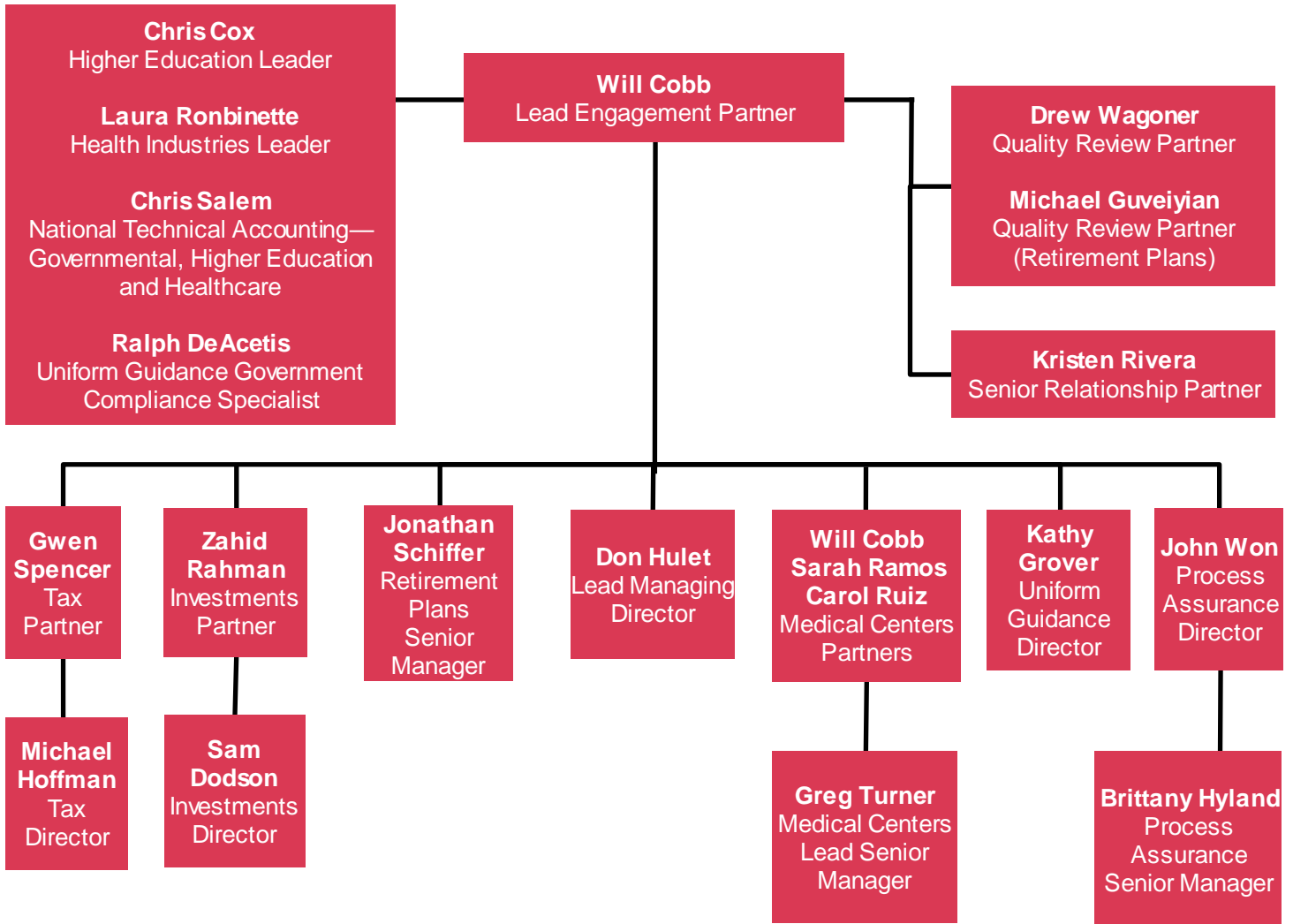
- Prepared and communicated a centrally determined audit scope and plan.
- Established a framework for continuous communications throughout our engagement teams.
- Adherence to engagement timelines to achieve your reporting objectives.

The multi-location engagement team is aligned to the University's geographical organization and mirrors the management control structure of 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
 Technical accounting	Analysis and review of technical accounting matters in government and higher education
 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

Focusing on the right risks

Like your business strategy, our approach is not standard, but tailored to you. Starting with our risk assessment, we combine deep, dynamic, tech-enabled analysis with the digital skills, technical knowledge and professional judgment of our people to focus work on areas of relevant risk.

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 any relevant internal control findings.



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 no aware of any instances of non-compliance with laws and regulations</p> <p>We are not aware of any potential illegal acts.</p>
Other information included in the Annual Report	<p>We are required to 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.</p> <p>As of the date of this letter, management has informed us that they intend to issue other information. We will be required to obtain written acknowledgment from management as to the documents 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 Committee on Compliance and Audit about whether it is aware of matters relevant to the audit and about the risks of material misstatement.</p>

Tomorrow's audit, today

Report to the **Committee on Compliance and Audit**

What do people + technology have to do with one another? Everything. When our community of solvers bring technology to the audit, we create a powerful human-machine combination. That's why we're embracing digital disruption. To reimagine the audit by optimizing digital know-how and human expertise to put quality first and usher in an experience revolution for you and your team.