

The PwC audit

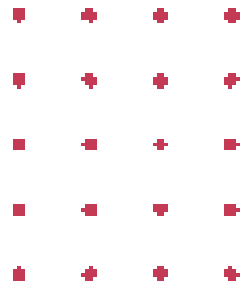
For when trust matters



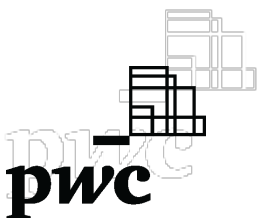
Report to the **Compliance and Audit
Committee of the Board of Regents**

University of California

FY2025 audit plan



This report and the information that it contains is intended solely for the information and use of those charged with governance and, if appropriate, management, and is not intended to be, and should not be used by anyone other than these specified parties.





February 27, 2025

Dear Members of the Compliance and Audit Committee of the Board of Regents (the Committee) of the University of California (the University):

Our focus on audit quality

Our audit practice is in a position of strength, with a reputation for delivering quality built over years by the hard work and achievements of our people. As a multidisciplinary firm, we have the skills and capabilities to achieve even more — innovating, using leading technology to work smarter and faster, unlocking value, and breaking down barriers that get in the way of progress.

Healthy capital markets depend on trust in the information provided by companies to the public and market participants. We know how important it is that we help build that trust by demonstrating integrity, quality, and transparency in everything we do.

An audit is fundamentally about trust, as it can help enhance confidence in a company's information. Driven by a quality-first mindset, our people deliver an innovative audit that focuses on sharper risk assessment, effective and efficient execution and insights. We continue to be inspired by the higher ideals of our profession, particularly independence and objectivity, and our legacy of bringing increased confidence to the financial statements.

The pace of development in standards and technology, combined with increasing stakeholders' expectations, is transforming how companies are evaluated and how we perform our audits. As such, we are continually investing in market-leading technology (including AI), deep industry expertise and technical acumen to reimagine your audit experience.

This report was prepared based on meetings with and insights from management, consideration of the University's operating environment, and our risk assessment procedures, including considerations of any year-to-date activities. As in past years, our audit approach will remain responsive to the University's environment and any macroeconomic influences. 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 understand what matters to you. Together, we can agree on mutual audit needs and expectations, enabling us to provide you with 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 continue to bring you The PwC Audit. Thank you for your continued trust in and support of us as your auditors. If you have any questions or wish to discuss any other matters prior to our meeting, please do not hesitate to contact me at or will.cobb@pwc.com.

Very truly yours,

Will Cobb
Engagement Partner

Cc: Nathan Brostrom, Executive VP – Chief Financial Officer

PricewaterhouseCoopers LLP, 405 Howard Street, Suite 600, San Francisco, CA 94105



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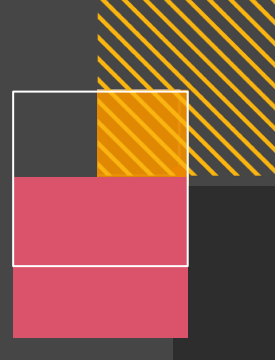
Other required
communications

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Our approach





Audit objectives



Our primary objectives are to:

- Perform audits (hereinafter referred to as audit) 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 University's 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, and
- Perform an audit of the University's compliance with federal award requirements in accordance with OMB Uniform Guidance, and
- Render opinions on the financial statements as of June 30, 2025 and for the fiscal year then ending.

Our audit does 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

Report on the financial statements of the:

- Business-type activities (the University), aggregate discretely presented component units (the affiliated foundations), and aggregate remaining fund information
- Five individual University of California Medical Centers: Davis, San Francisco, Los Angeles, Irvine and San Diego (collectively, the Medical Centers)
- University's Defined Benefit Plans
- University of California Retirement Savings Program (UCRSP)
- University of California Retirement Plan Schedule of Cash Contributions
- University's compliance with laws, regulations, and provisions of contracts and grant agreements and on our consideration of its internal control over financial reporting
- University's compliance with requirements applicable to certain federal grants and contracts in accordance with OMB Uniform Guidance (certain Uniform Guidance major program audit services are performed by another service provider engaged and coordinated by the University)

Other services/comments

- Procedures in connection with periodic bond offerings, as applicable

Note: The University's affiliated foundations, including campus foundations, and Fiat Lux Risk and Insurance Company have separate audits of their financial statements and the auditors reporting on those entities 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.



Risk assessment results

Significant risk (all entities)

Risk of management override of controls (pervasive to all accounts and assertions)

Planned audit response

We consider the incentives, pressures, and opportunities for management to commit fraud. We evaluate the design and implementation of internal controls as well as perform substantive tests of details including, but not limited to, testing journal entries, evaluating the business rationale for any significant unusual transactions, and testing underlying data and significant assumptions in response to any significant accounting estimates that could have a material impact on the financial statements. We will incorporate unpredictability into our audit and perform fraud inquiries of various individuals throughout the University.

Significant risk (Medical Center audits)

Risk of fraud in revenue recognition - Net patient accounts receivable is over/understated due to management's judgment in recording material out-of-model adjustments (valuation assertion)

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 to design specific targeted procedures to address the assumptions that could have a material impact on the financial statements. Substantive procedures include, but not limited to, testing management's model, performing historical cash collection look-back analysis, testing of cash collections after the end of the fiscal year, and testing of patient file records.

Fraud and related-party items for discussion:

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

Fraud items for discussion:

- Programs and controls in place to mitigate the risk of fraud and error
- Specific concerns about the risk of error or fraud
- Any actual, alleged or suspected fraud
- Oversight of the Company's assessment of fraud risks and mitigating controls
- Significant unusual transactions
- Understanding of the Company's relationships and transactions with related parties
- Concerns regarding related-party relationships and transactions
- Violations or possible violations of law



Risk assessment results

Other matters of emphasis

We have identified the areas below that are not considered to have 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 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, including issuance and refinancing transactions
- 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 GASB Statement No. 101, *Compensated Absences*, and GASB Statement No. 102, *Certain Risk Disclosures*

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 contracts, and continued focus on compliance processes and controls over the University's federally sponsored programs. These procedures are performed in connection with the 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.



Risk assessment results

Management's use of artificial intelligence

As part of the audit, we will consider the extent to which the University entities and their third-party vendors and service organizations are using or plan to use artificial intelligence (AI) in the financial reporting process, including internal control over financial reporting. We plan to:

- Inquire with executive management about the overall strategy and policies with respect to AI, which have the potential to impact financial reporting and/or underlying processes and controls
- Obtain management representation related to the identification and communication of where AI has been used in the preparation of the financial statements and in the supporting financial records and related data provided as part of the audit
- Read the University's current filings and any press releases or other public statements made by the University related to the use of AI to identify matters which might impact financial reporting and/or underlying processes and controls

Note: The information above will be considered as our audit progresses in connection with our assessment of the use of artificial intelligence in the financial reporting process, including internal control over financial reporting.

Our process

Our risk assessment process starts with us having a **deep understanding of your business**, including the following:

- nature of the business
- business risks
- the environment in which it operates
- financial performance
- understanding of control environment
- understanding of the IT environment, including use of artificial intelligence in the financial reporting process
- your accounting policies

We consider qualitative and quantitative factors to determine whether the risks identified represent a **risk of material misstatement** to the financial statements, and design audit procedures to address those risks.

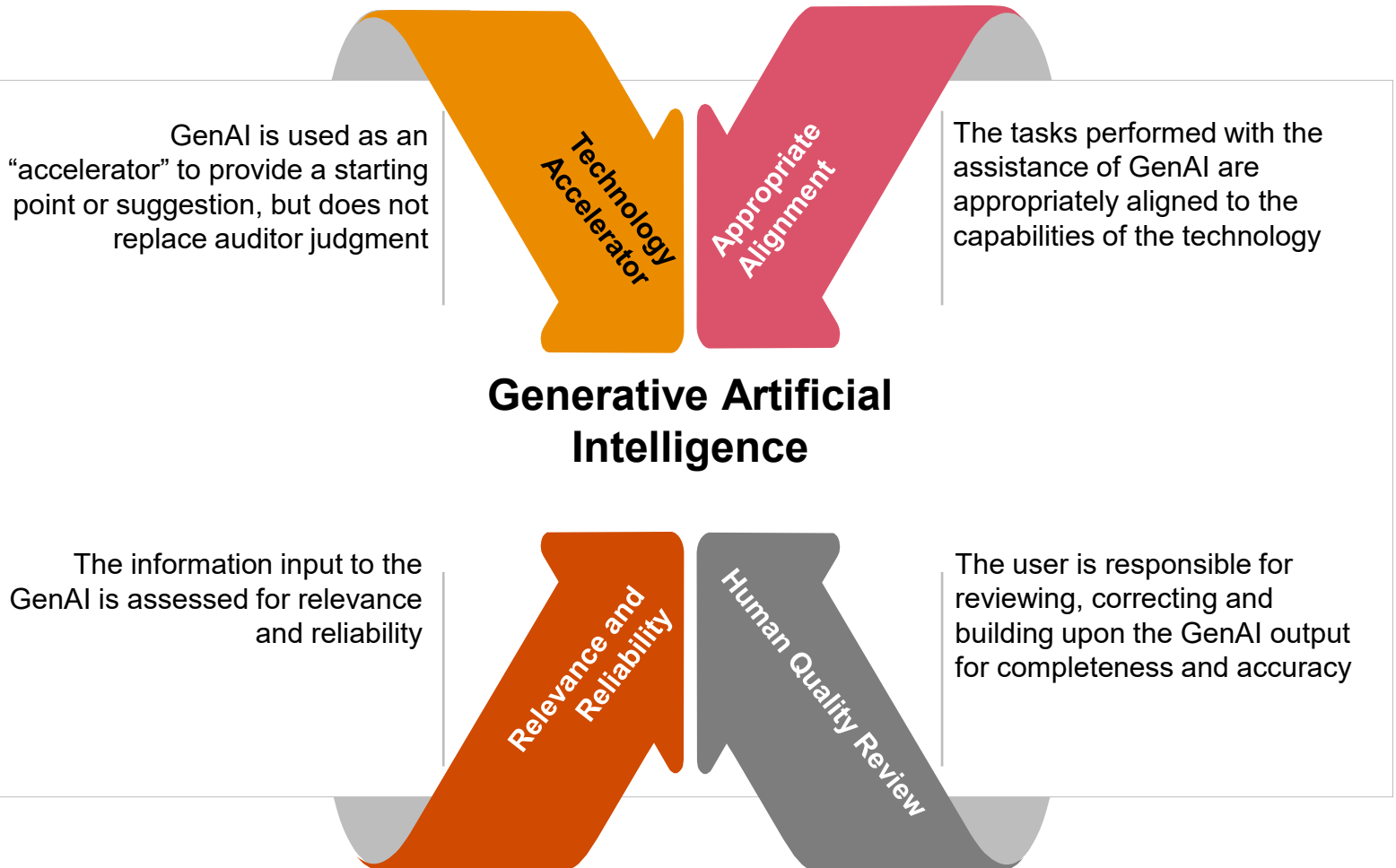
Focusing on the right risks

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.



Use of GenAI in the Audit

Harness the power of generative artificial intelligence (GenAI)



Types of GenAI technologies and solutions available for engagement teams to use during the audit:

ChatPwC

M365 Copilot

ChatNational

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 entities with respect to which independence requirements apply (e.g. acquisitions/divestitures/equity investments or other transactions), as well as changes leading to new officers, directors, or beneficial owners not previously identified.
- If PwC is providing impermissible non-audit services to, or has other prohibited relationships with, an entity with respect to which independence requirements will apply (e.g., a prospective new affiliate pursuant to a merger or acquisition), such services and/or relationships 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 and/or relationships.
- 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 proactively work together with management 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 to understand the changes at the University, including the impact to independence	X	
Ongoing monitoring of the affiliate listing and Regents' website	X	
Timely communication of any changes in officers, Regents, or affiliates that need to be evaluated through the independence framework		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:

- **Continuous monitoring and training:**
 - 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
- **Tech-enabled compliance:** Independence confirmation system that automatically generates and sends confirmations to US 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/beneficial owner.**



Scoping and materiality overview

Our audit strategy is based on a top-down, risk-based audit approach. Fundamental to our audit approach is an understanding of

The size and complexity of the business and its environment

The design and implementation of entity-level controls (ELCs) and information technology general controls (ITGCs)

Management's process for evaluating internal control over financial reporting.

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.

We consider quantitative and qualitative factors, as well as metrics used by the users of the financial statements. Materiality was preliminarily determined based on total assets and total revenues for all audits, except for the retirement plans audits which was based on net assets.

Considerations for scoping accounts or disclosures include:

- Size and composition of the account;
- Susceptibility to misstatement due to errors or fraud;
- Volume of activity, complexity and homogeneity;
- Nature of the account or disclosure;
- Changes from prior period in account or disclosure characteristics;
- Accounting and reporting complexities;
- Exposure to losses in the account;
- Possibility of significant contingent liabilities;
- Existence of related party transactions;
- Complexity, subjectivity and/or uncertainty related to accounting estimates



Multilocation audit scoping overview

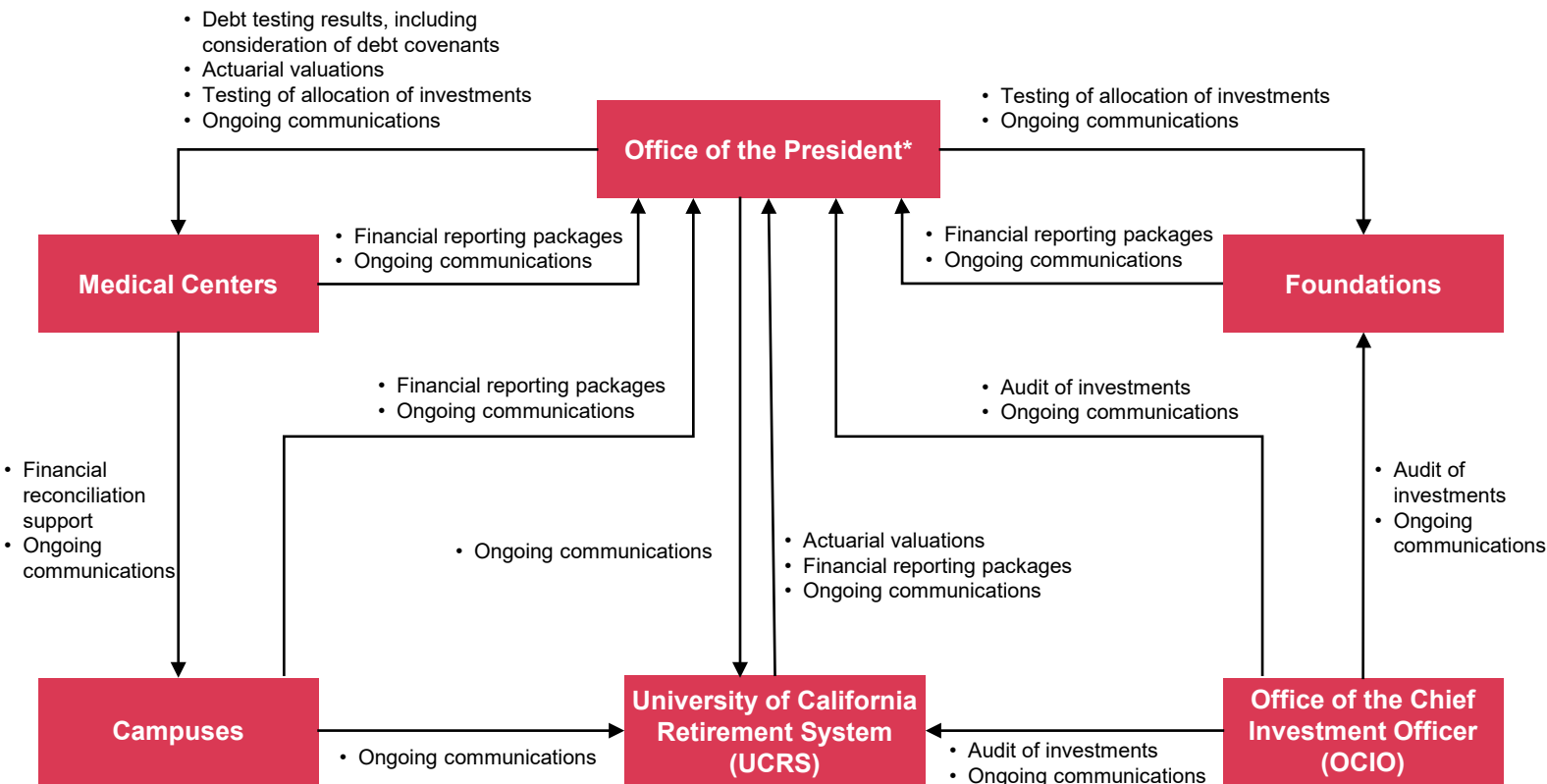
In an audit of the financial statements of an entity company with operations in multiple locations/business units, we determine the extent to which audit procedures should be performed at selected locations and who will perform those procedures to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

PwC has adopted a consistent approach for our audit procedures at the 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 the audit:

- 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 illustration, although not all inclusive, depicts the organization and flow of information among the different component audit teams.



*Refer to the next page for information related to UCPATH procedures.



Scoping results

Entity / business unit	Financial statement scoping
Office of the President and OCIO	Audit procedures are performed as necessary at these locations to issue an opinion on the financial statements of the University. During our scoping, we also take into consideration the consolidation process, UCPATH*, the requirements of the medical center audits, the UCRS audit and the affiliated foundation audits. For example, the investment work we perform at OCIO is tailored to be able to support the needs of these various standalone reports.
Medical Centers and UCRS	We perform an audit of the financial statements for each of the five University Medical Centers and UCRS, 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 fiscal year.
Foundations	The audits of the campus foundations are performed by separate foundation engagement 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.

*UCPATH is the University's system-wide payroll, benefits, human resources, and academic personnel system. Payroll-related audit procedures are performed for payroll expense processed through UCPATH at the various University locations.

With our dynamic guided multi-location scoping tools, we can quickly analyze account balances by location across your entity for real-time visibility into the impact of scoping decisions. This facilitates our ability to determine which locations/business units are excluded from audit scope (non-significant and inconsequential components).

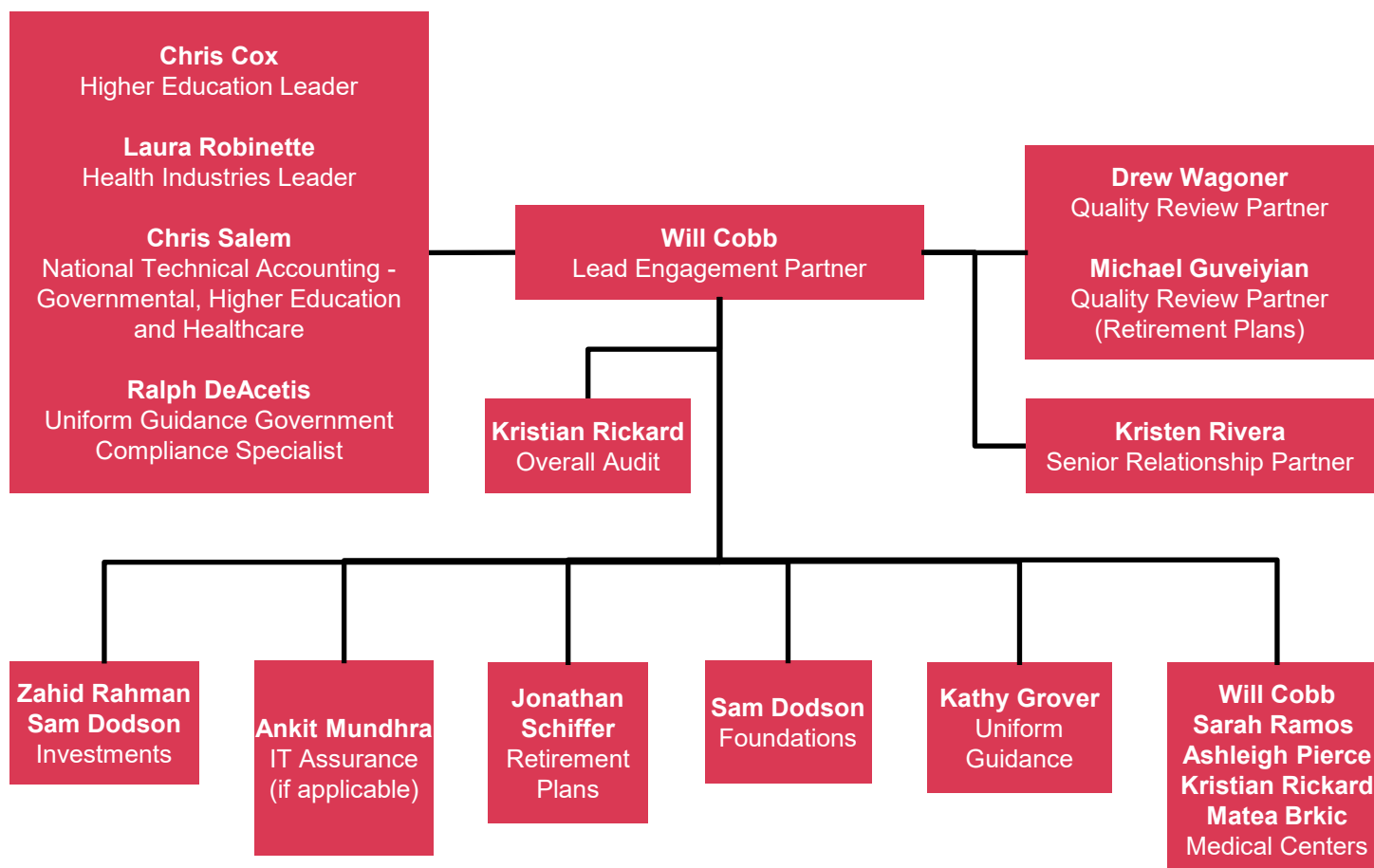
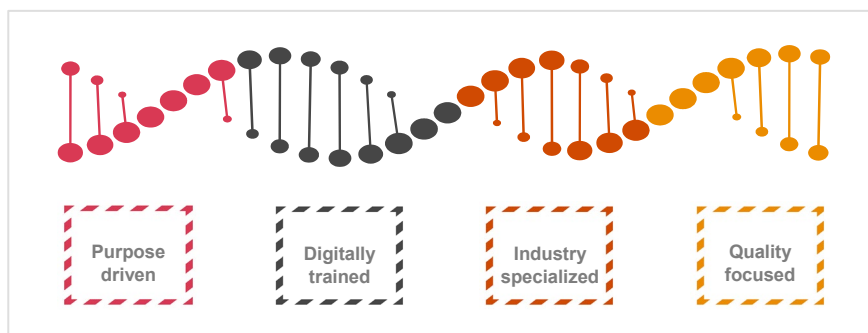


Our team and how we will deliver



Your audit team

At PwC, we develop extraordinary professionals, trained with a keen understanding of how companies build and maintain trust in a complex world. Our team includes technical leaders, digitally upskilled professionals, specialists in your industry and is ready to deliver quality assurance across financial and emerging non-financial dimensions related to your audit and business. Moreover, we care — inspired by the higher ideals of our profession, and committed to live out the tenets of independence, objectivity and public service.











Your audit team

Specialists

Learn more about how our community of solvers will deliver value

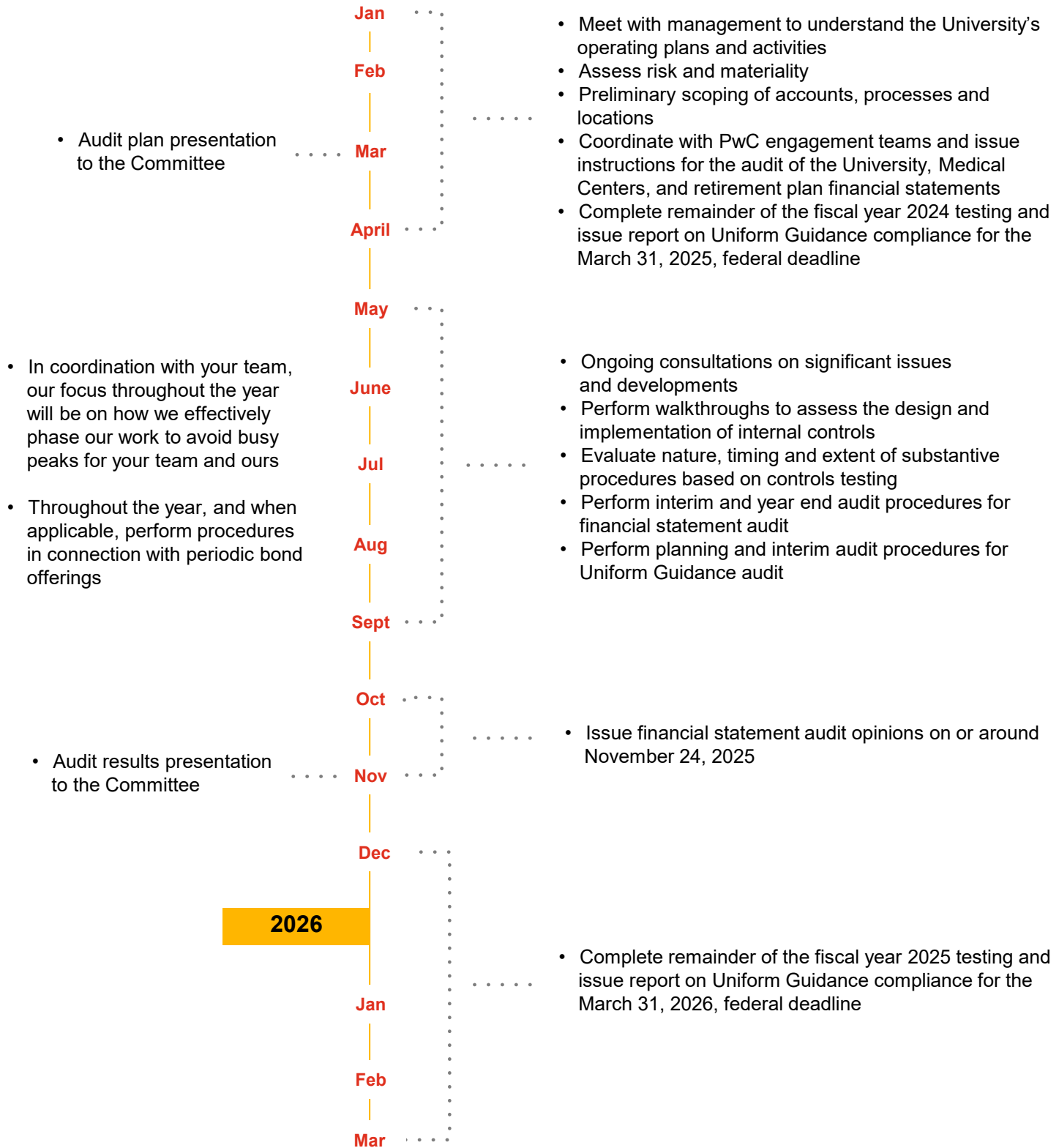
The University operates in a highly complex environment, requiring additional expertise beyond traditional audit resources. During our audit, we will utilize functional experts to evaluate key areas of your business risks - the valuation of pension and postemployment benefit obligations, valuation of 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:

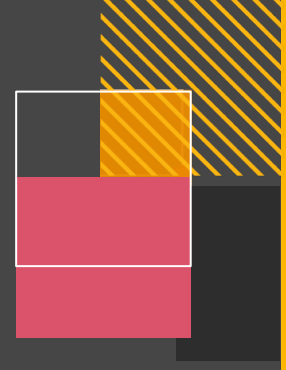
Area of expertise	Description
 Technical accounting	Analysis and review of governmental accounting matters
 Financial services valuation	Assistance with valuation of investments and related disclosures
 Compensation and benefit plans	Review actuarial assumptions related to the valuation of benefit plan obligations
 Health reimbursements	Review third party account transactions subject to complex rules and interpretation (if applicable)
 Information technology	Assessment of design and implementation of IT general controls (if applicable)
 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

2025





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>Except for the matters previously disclosed to you by University management, we are not aware of any instances of potential non-compliance with laws and regulations.</p>
Other Information included in the Annual Report	<p>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.</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 document(s) 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 about whether it is aware of matters relevant to the audit and about the risks of material misstatement.</p>



Appendices





Peer review report

GRANT THORNTON LLP

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REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL

November 21, 2024

To the Partners of PricewaterhouseCoopers LLP and the National Peer Review Committee:

We have reviewed the system of quality control for the accounting and auditing practice of PricewaterhouseCoopers LLP (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended June 30, 2024. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; an audit performed under FDICIA; and examinations of service organizations (SOC 1[®] and SOC 2[®] engagements).

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of PricewaterhouseCoopers LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended June 30, 2024, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. PricewaterhouseCoopers LLP has received a peer review rating of *pass*.

Grant Thornton LLP



Glossary

Elevated risk

A risk that requires additional audit consideration beyond what would be necessary for a normal risk, but it does not rise to the level of a significant risk because of the nature, the likely magnitude of the potential misstatements, or the likelihood of the risk occurring. Elevated risks frequently will be risks that we will discuss with management and the audit committee of the entity, but that do not rise to the level of a significant risk.

Fraud

An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception that results in a misstatement in the financial statements that are the subject of an audit. Two types of intentional misstatements are relevant: misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Risk assessment procedures

The procedures performed by the auditor to obtain information for identifying and assessing the risks of material misstatement in the financial statements whether due to fraud or error.

Normal risk

Relates to a range of situations, and may include routine transactions subject to systematic processing, as well as more complex transactions where judgment is required. Normal risks do not rise to the level of a significant risk because of either the magnitude of potential misstatements that could result from the risk or the likelihood of the risk occurring.

Related party transactions

The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a price is charged.

Significant risk

A risk of material misstatement that requires special audit consideration.

Inconsequential components

Components that individually and in the aggregate do not present a reasonable possibility of material misstatement.

Non-significant components

Lower-risk components, including those that present a reasonable possibility of material misstatement in the aggregate.



For when trust matters

Report to the **Compliance and Audit
Committee of the Board of Regents**

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